S. HRG. 101-493

LOG EXPORT LEGISLATION

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

S. 754

TO RESTRICT THE EXPORT OF UNPROCESSED TIMBER FROM CERTAIN FEDERAL LANDS, AND FOR OTHER PURPOSES

S. 755

TO AUTHORIZE THE STATES TO PROHIBIT OR RESTRICT THE EXPORT OF UNPROCESSED LOGS HARVESTED FROM LANDS OWNED OR ADMINISTERED BY STATES

NOVEMBER 7, 1989

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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LOG EXPORT LEGISLATION, S. 754 AND S. 755

TUESDAY, NOVEMBER 7, 1989

U.S. SENATE, COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY AFFAIRS,
Washington, DC.

The subcommittee met at 9:33 a.m., in room SD-538, Dirksen Senate Office Building, Senator Paul S. Sarbanes (chairman of the subcommittee) presiding.

Present: Senators Sarbanes, Dixon, and Heinz.

OPENING REMARKS OF SENATOR SARBANES

Senator SARBANES. Today, the Subcommittee on International Finance and Monetary Policy of the Banking, Housing, and Urban Affairs Committee undertakes a hearing to review the issue of controls on the export of unprocessed timber from Federal and State lands.

The Subcommittee has before it two bills that would expand controls. S. 754 would tighten and make permanent the existing ban on the export of unprocessed timber from Federal lands in the Western United States. And S. 755 would authorize States to prohibit or limit exports of unprocessed timber from State lands.

Both bills have been introduced by Senator Packwood, who will be our lead witness at this hearing.

With respect to the export of unprocessed timber from Federal lands in the Western United States, S. 754 would make permanent the prohibition which has been attached annually to the Interior Department appropriations, beginning with the Interior Appropriations Act of 1974.

It is, in fact, included in the Interior appropriations bill for fiscal year 1990—I was about to say for the coming fiscal year, but we're in that year right now, Public Law 101-121, which was approved by the Congress and signed by the President despite the administration's initial opposition to extension of this provision.

This matter is of considerable interest and the Subcommittee has an unusual number of witnesses wishing to testify this morning. We will hear first from elected public officials, beginning with Senator Packwood of Oregon, the sponsor of the two bills under review. Senator Packwood will be followed by Senator Gorton of Washington, and then, in turn, we will hear from Governor Goldschmidt of Oregon. And we will then hear from a panel of members of the House of Representatives—Representative DeFazio of Oregon, Representative Miller of Washington, Representative Unsoeld of Washington and Representative Williams of Montana.

We then will have a very large panel of distinguished witnesses from both the private sector and the State sector, with a range of viewpoints on this issue.

Senator Packwood, we would be happy to hear from you.

OPENING STATEMENT SENATOR SARBANES

Senator SARBANES. Today the Subcommittee on International Finance and Monetary Policy holds a hearing to review the issue of controls on the export of unprocessed timber from federal and state lands.

The Subcommittee has before it two bills that would significantly expand controls. S. 754 would tighten and make permanent the existing ban on the export of unprocessed timber from federal lands in the western United States. S. 755 would authorize states to prohibit or limit exports of unprocessed timber from state lands. Both bills have been introduced by Senator Packwood, with 19 and 16 cosponsors respectively.

With respect to the export of unprocessed timber from federal lands in the western United States, S. 754 would tighten and make permanent the prohibition which has been attached annually to the Interior Department appropriation beginning with the Interior Appropriations Act of 1974. It is included in the Interior appropriation for fiscal year 1990, Public Law 101-121, which was approved by the Congress and signed by the President despite the Administration's initial opposition to extension of the rider.

The question of U.S. exports of unprocessed timber has long been of concern in our western states, but it is increasingly a national and international concern as well. In a recent major article entitled "Facing West, Nervously", the National Journal noted: "In the increasingly international economy, the problems of a small-mill owner involved more than the struggle between the mills, the big logging companies, the U.S. Service and the environmentalists over use of the national forests. His difficulty can be traced also to the inefficiencies of the Japanese lumber industry, protectionism in South Korea and China and the willingness of Asian buyers to pay far more for raw timber than American mills can afford."

Indeed, interest in this matter is such that the Subcommittee has an unusual number of witnesses wishing to testify this morning. We will hear first from elected public officials, beginning with Senator Packwood of Oregon, sponsor of the two bills under review. Senator Packwood will be followed by Senator Gorton of Washinton, who will be followed in turn by Governor Goldschmidt of Oregon. Then we will hear from distinguished members of the House: Representative DeFazio of Oregon, Representative Miller of Washington, Representative Unsoeld of Washington, and Representative Williams of Montana.

We will then hear from eight distinguished witnesses representing a range of viewpoints on this issue: Dennis Hayward of the Northwest Timber Association, George Frampton of the Wilderness Society, Wayne Pierce of the United Brotherhood of Carpenters and Joiners of America, O.C. Edwards of the Inter-Industry Log Export Action Committee, James P. McElroy of the Washington State Department of Natural Resources, Douglas Caffall of the Pa-

cific Rim Trade Association, D.G. Hendricks of the American Association of Port Authorities, and Glen Ramiskey of the International Longshoreman's and Warehouseman's Union.

Senator Packwood if you would proceed.

STATEMENT OF BOB PACKWOOD, MEMBER, U.S. SENATE FROM THE STATE OF OREGON

Senator PACKWOOD. Mr. Chairman, than you very much. Before I start, could I submit for the record a letter from Richard Darman, the Director of OMB, indicating that the administration supports S. 754. They have no position on S. 755. Their letter applies only to S. 755. They simply have no position on the State ban, but they do support the log export ban on Federal lands.

And I would ask that the administraton better be included in the record.

Senator SARBANES. Certainly, the letter will be included in the record.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

November 6, 1989

Honorable Bob Packwood
United States Senate
Washington, D.C. 20510

Dear Senator Packwood:

Thank you for your September 29th letter regarding the export of unprocessed logs harvested from Federal lands.

As we indicated in our September 28th letter, tne Administration has revised downward its revenue estimates resulting from lifting the ban. We have also dropped our opposition to the one-year ban included in the FY 1990 Interior and Related Agencies Appropriations bill and would not object to S.754. I have enclosed our revised estimates for your use.

Again, thank you for your letter.

With best regards,

Richard G. Darman
Director

Enclosure

Estimated Receipt Impact Due to Lifting the Log Export Ban

	FY 90	FY 91	FY 92	FY 93	FY 94	TOTAL
CBO Gross Receipts	$7	$20	$65	$65	$65	$222
FY 1990 Budget						
Gross Receipts	$100	$133	$200	$200	$200	$833
BLM	(25)	(33)	(50)	(50)	(50)	(208)
FS	(75)	(100)	(150)	(150)	(150)	(625)
Net Receipts*	$69	$92	$138	$138	$138	$575
Revised Estimates						
Gross Receipts	30	40	60	60	60	250
BLM	(7)	(10)	(15)	(15)	(15)	(62)
FS	(23)	(30)	(45)	(45)	(45)	(188)
Net Receipts*	21	28	42	42	42	175

* Assumes 50 percent State share of BLM receipts and 25 percent share of Forest Servcie Receipts as required under current law.

Senator PACKWOOD. The issue before this Committee, Mr. Chairman, is whether or not we want to continue to export a raw material; namely, logs, that are in short supply in this country, at the same time that we are doing everything possible to conserve that natural resource.

We conserve it to protect the spotted owl. We conserve it to save old growth. We conserve it to turn it into National Parks and Wilderness. We conserve it for watershed protection and wildlife and fish protection and outdoor recreation.

And, Mr. Chairman, we also use it for lumber production.

The upshot of all this, however, is that we do not have enough timber to take care of all of the conservation and recreation and wilderness purposes that we would like and still have enough to produce the lumber that we need.

We, therefore, import lumber principally from Canada to make up for this shortage.

Mr. Chairman, I would like to read a letter from the Chief of the Forest Service to me corroborating this statement:

Dear Senator Packwood: The purpose of this letter is to follow up on your conversation with Dr. David Darr of my staff regarding the possible effects of banning U.S. softwood log exports on softwood lumber imports.

In 1988, we imported 30 percent of our softwood lumber, almost all of it from Canada. If softwood log exports from public lands were to be banned and if all of the logs were to be processed into lumber and the lumber substituted one for one with imports, imports would be reduced to 26 percent of consumption.

If exports from public and private lands were to be banned, processed into lumber and the lumber substituted one for one with imports, imports would be reduced to 16 percent of consumption.

In short, Mr. Chairman, what that means is this:

If we did not export a single log from this country off the Federal lands, State lands or private lands, and Weyerhaeuser is far and away the biggest exporter of logs off the private lands—if we didn't export a single log, we would still be short of lumber in this country.

Mr. Chairman, it is going to get worse because not only are we short of sufficient timber to take care of all of our needs now, when all of the new Forest Service plans are done—and they should be done this year, Mr. Chairman—it's my guess, and I think the Forest Service would probably corroborate it, that they're going to reduce their timber sales program by about 20 percent over the next 5 to 10 years. And this will only compel us to import more lumber than we import now.

So it's no wonder that softwood lumber imports have increased from approximately 5 percent of our use in 1952 to 30 percent now, and will increase in the future unless we ban log exports.

The bills that I've introduced, S. 754 and S. 755, would help reverse this situation. My bill relating to Federal log exports would permanently prohibit the export of unprocessed logs from Federal lands in the Western Continental United States and it would eliminate substitution, which is a process in which a company exports its own private timber and then buys either directly off of public lands or through a third person timber to make up for what they've exported from their own lands.

S. 755 would give congressional permission to States to prohibit or restrict log exports from land owned by the States. And why we

need that bill, Mr. Chairman, is that, because of a court decision, Supreme Court decision, indicating the States do not have that power on their own, the regulation of interstate commerce and foreign commerce is a congressional matter, and short of delegating that to the States—and we could do it. There's no question but what we could delegate it—the States simply don't have the power to act at all.

[Copies of proposed bills S. 754 and S. 755 follow:]

II

101ST CONGRESS
1ST SESSION

S. 754

To restrict the export of unprocessed timber from certain Federal lands, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 11 (legislative day, JANUARY 3), 1989

Mr. PACKWOOD (for himself, Mr. CRANSTON, Mr. BAUCUS, Mr. BURNS, Mr. MCCLURE, and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To restrict the export of unprocessed timber from certain Federal lands, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this act shall be cited as the "Federal Timber Export Restriction Act of 1989".

SEC. 2. Notwithstanding the Act of April 12, 1926 (44 Stat. 242), and except as permitted by section 4 of this Act, no person who acquires, either directly or indirectly, unprocessed timber originating from Federal lands shall—

(1) export such timber from the United States;

(2) sell, trade, exchange, or otherwise convey such timber to any other person for the purpose of exporting such timber from the United States; or

(3) use, or assist or conspire with any other person to use, such timber in substitution for unprocessed timber originating from private lands exported or to be exported from the United States.

SEC. 3. (a) Each person who acquires, either directly or indirectly, unprocessed timber originating from Federal lands shall report the disposition of such timber to the Secretary of Agriculture or the Secretary of the Interior at such time and in such manner as the Secretaries may require under the regulations they prescribe pursuant to section 7 of this Act.

(b) Each person who sells, trades, exchanges, or otherwise conveys unprocessed timber originating from Federal lands to another person shall specifically identify the origin of such timber, and the person to whom such timber is conveyed shall acknowledge receipt of such origin identification and shall agree in writing to comply with the prohibitions in paragraphs (1) and (2) of section 2 of this Act.

(c) Using the information the Secretaries collect pursuant to this section each Secretary shall annually report to the Congress on the disposition of unprocessed timber originating from Federal lands. The Secretary of Agriculture may meet this requirement by including such information pertaining to

the National Forest System as part of the annual report required by section 8(c) of the Forest and Rangeland, Renewable Resources Planning Act of 1974, as amended (88 Stat. 478; 16 U.S.C. 1606).

SEC. 4. This Act shall not apply to specific quantities of grades and species of unprocessed timber from Federal lands which the Secretary of Agriculture and the Secretary of the Interior determine to be surplus to domestic manufacturing needs.

SEC. 5. (a) For the purposes of this Act—

(1) "person" means an individual, partnership, corporation, association, or other legal entity and shall include subcontractors and any subsidiary, parent company, or other affiliate;

(2) "Federal lands" means lands administered by the Secretary of Agriculture or the Secretary of the Interior and located west of the 100th meridian in the contiguous 48 States;

(3) "private lands" means lands held or owned by a person and does not include lands held or owned by the United States, a State or political subdivision thereof, or any other public agency, or lands held in trust by the United States for Indians; and

(4) "acquire" means to come into possession of, either directly or indirectly, through a sale, trade, exchange, or other transaction.

(b) For the purposes of section 5(a)(1) of this Act, persons are affiliates of each other if, directly or indirectly, (1) either one controls or has the power to control the other, or (2) a third person controls or has the power to control both. In determining whether persons are affiliates, all appropriate factors shall be considered including, but not limited to, common ownership, common management, and contractual relationships.

SEC. 6. Any person who violates this Act, or counsels, procures, solicits, or employs any other person to violate this Act, may be assessed a civil penalty by the appropriate Secretary of not more than $10,000 for each violation.

SEC. 7. Any person who knowingly violates this Act, or counsels, procures, solicits, or employs any other person to violate this Act, shall, upon conviction, be fined not more than triple the gross value of the unprocessed timber originating from Federal lands which was exported.

SEC. 8. Within one year after the date of enactment of this Act, the Secretary of Agriculture and the Secretary of the Interior shall, in consultation, each prescribe new coordinated and consistent regulations to implement this Act on lands which they administer. Such new regulations shall not

apply to valid contracts in existence on the date such new regulations become effective.

SEC. 9. Section 2 of the Act of April 12, 1926, as amended (82 Stat. 966, 84 Stat. 1817) is hereby repealed.

O

II

101ST CONGRESS
1ST SESSION

S. 755

To authorize the States to prohibit or restrict the export of unprocessed logs harvested from lands owned or administered by States.

IN THE SENATE OF THE UNITED STATES

APRIL 11 (legislative day, JANUARY 3), 1989

Mr. PACKWOOD (for himself, Mr. CRANSTON, Mr. BAUCUS, Mr. BURNS, Mr. MCCLURE, and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To authorize the States to prohibit or restrict the export of unprocessed logs harvested from lands owned or administered by States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. AUTHORITY OF STATES TO PROHIBIT OR RESTRICT EXPORTS OF UNPROCESSED LOGS.

(a) AUTHORITY TO PROHIBIT OR RESTRICT EXPORTS OF UNPROCESSED LOGS.—Each State may by statute prohibit or restrict the exportation from the United States of any unprocessed logs harvested from land owned or administered by that State.

(b) DEFINITIONS. For the purpose of subsection (a)—

(1) the term "State" means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, Guam, and any other territory or possession of the United States; and

(2) the term "unprocessed log" shall have the meaning given to such term by the State involved.

SEC. 2. EFFECTIVE DATE.

This Act shall take effect on January 1, 1990.

○

Senator PACKWOOD. I have frequently been subject to the criticism that I am a free trader and my bill violates free trade principles.

Mr. Chairman, nothing could be more erroneous. My bill is in perfect harmony with existing general agreement on trade and tariff rules, GATT rules.

Article 20G of the GATT allows export limitations, quote: "* * * relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption."

There is no question, Mr. Chairman, that the export limitations I am suggesting are in perfect harmony with our efforts to conserve all of the timber that we can possibly conserve in this country.

As a matter of fact, this committee is actually familiar with this subject. In 1973, this committee reported to the Full Senate a bill that I had introduced which would have banned log exports totally from Federal lands in the West and, in addition, would have set limits on the total amount of logs that could be exported from private lands. It went out of this committee.

Last, let me note that there are approximately 10,000 direct jobs lost in the Northwest—direct jobs, Mr. Chairman—because of the export from logs off the Federal and State public lands. In addition, over 30,000 direct jobs are lost because of export off of private lands.

As I have indicated, Weyerhaeuser is the principal exporter of private logs, mostly from the State of Washington.

While my bill does not in any way limit or prohibit the export of private logs, Weyerhaeuser is still in strong opposition.

In conclusion, Mr. Chairman, this committee has a relatively simple decision to make:

Does this committee want to reaffirm what it did in 1973 and say that we are going to try to conserve the precious and unique natural resources and, at the same time, save American jobs by prohibiting the export of logs from public lands?

Or, is this committee going to say that the creation of jobs overseas is a higher priority than protecting jobs in the United States and, at the same time, preserving a priceless natural heritage that continued exports will devastate and decimate?

Last, Mr. Chairman, I want to submit a letter that I received yesterday from Georgia Pacific. One of the groups scheduled to testify in opposition to my bill is the Pacific Rim Trade Association, and they list Georgia Pacific as one of their members. Georgia Pacific does not support their position on this bill, and I did not know that until yesterday.

And their letter says very specifically:

> Georgia Pacific's position on log exports from Federal lands is to codify the existing ban on Federal timber export and on State lands, the State should have the right to determine the buyer of its timber. While we are members of the Pacific Rim Trade Association, the Association understands that our views differ from other members on log export issues.

I don't know if there are other members of that Association that are listed as members that share Georgia Pacific's position, but at least Georgia Pacific wants it clearly known that they support my bills.

Senator SARBANES. Well, we'll ask the Pacific Rim Trade Association when they testify.

Senator PACKWOOD. There is the Georgia Pacific letter for the record.

Thank you very much, Mr. Chairman.

[The Georgia Pacific letter and the complete prepared statement of Senator Packwood follows:]

Georgia-Pacific Corporation
International Square
1875 Eye Street N.W.
Washington, D.C. 20006
Telephone (202) 659-3600

November 6, 1989

The Honorable Robert Packwood
U. S. Senate
Washington, D. C. 20510

Dear Senator ~~Packwood~~ Bob:

In response to a discussion earlier today with John Turner of our Washington office regarding Georgia-Pacific's (G-P) membership in the Coalition Against Log Export Restrictions, I believe it would be helpful to clarify the company's position to avoid any misunderstanding.

G-P is a member of the Pacific Rim Trade Association (PTRA). The Association has a broad program designed to encourage exports of finished products to overseas markets and we fully support these efforts. However, G-P has made it clear to the PRTA that we do not share the position taken by the Association in support of the Coalition to restrict log exports and prefer that G-P's name not be used when listing members of PRTA on this issue.

In fact, G-P does not oppose either of the bills you have introduced on this subject, ie. S. 754, Federal Timber Export Restriction Act, and S. 755, authorizing the states to determine log export restrictions from state lands. G-P's position on log exports from federal lands is to codify the existing ban on federal timber export. In the case of logs harvested from state lands, G-P believes an owner---public or private---should have the right to determine the buyer of its timber. Therefore, granting the states the right of self-determination in this regard is a concept supported by our company.

We regret any confusion that may have resulted because of G-P's name being listed as a supporter of the Coalition Against Log Export Restrictions. While we are members of the PRTA, the Association understands that our views differ from the other members on the log export issue.

I sincerely hope this letter will clarify the G-P position on log exports.

Sincerely,

C. T. Howlett, Jr.
Vice President,
Government Affairs

cc: Dewey L. Mobley - - Vice President, G-P, Portland, OR.

OPENING STATEMENT OF SENATOR PACKWOOD

INTRODUCTION

Senator PACKWOOD. Mr. Chairman thank you for holding this hearing on S. 754 and S. 755, my package of log exports bills. The future management of our nations forest lands is receiving increasing national attention. The protection and management of our public forestlands has become a national issue. Recently the Senate Agriculture and Energy Committees held a joint hearing discussing the national forest planning process. Congress has to decide how to balance protection of old growth forests with maintaining a sustainable supply of timber for the forest products industry. The export of unprocessed logs is an important component of the timber supply equation. In 1988 alone 4.6 billion board feet of softwood logs were exported from the United States, enough logs to build over 400,000 homes, and of that log export total, 20 percent came from public lands in the Western States. S. 754 and S. 755 would restrict the export of unprocessed logs from State and Federal lands. These bills will enable both the States and the Federal Government to develop cohesive and consistent policies governing the export of logs from Federal and State lands.

My first bill, S. 754, establishes a permanent ban on the export of unprocessed logs from Federal timberlands. The second bill, S. 755, delegates congressional authority to States allowing them to regulate the export of logs from State-owned lands. The bills are primarily aimed at conserving an exhaustible natural resource in increasing short supply. Although trees are a renewable resource, old growth forests are not. A coalition of diverse groups including national environmental organizations, timber associations, and labor unions supports legislation limiting log exports. I am pleased to see the Governor of Oregon is here to lend his support to this initiative.

HISTORY OF INVOLVEMENT

My concern about the effect of exporting logs on the economy of Oregon and the forest products industry is longstanding. In fact, in 1973, when I was a member of the Banking Committee, I held hearings in Portland on log export restrictions. I also sponsored legislation that year banning log exports from Federal lands and phasing out log exports from private lands over three years. The committee reported out an amended version of the bill on May 16, 1973. In February of this year I held hearings throughout Oregon on whether or not we should restrict log exports. Many of the more than 30 witnesses who testified were the same individuals who testified at my 1973 hearing. The dynamics of the issue have changed but the players have not. Representatives of Federal, State, and local governments as well as timber companies and environmental organizations stated loud and clear that they are increasingly concerned about the exportation of unprocessed logs and want action to restrict public log exports.

The economy of Oregon and the Pacific Northwest depends on a vibrant and productive forest products industry. Mills are closing because they do not have enough logs to process, while at the same

time, there is record demand for timber products. The export of unprocessed logs contributes to the imbalance in the log supply equation. In 1988 alone, the Columbia River/Snake River Customs District exported an estimated 1.4 billion board feet of private and state logs to overseas markets. An estimated 100 to 125 million board feet of logs harvested from Oregon State owned lands were exported, an amount equal to almost half of the timber harvest in the Chairman's State of Maryland. This is only about 1.5 percent of Oregon's total timber harvest (public and private) but in this era of short supply these logs could be providing new jobs for millworkers. I believe, therefore, it is time for Congress to explicitly delegate to States the authority to regulate log exports from State-owned lands. This would enable the States and the Federal Government to have consistent log export policies.

FEDERAL LOG EXPORT BILL

Mr. Chairman, S. 754, would make permanent the current temporary prohibition on exporting logs from Federal lands west of the 100th meridian (a line running from central North Dakota through central Texas) in the continental United States. This bill excludes lands held in trust by the United States for Indians. Current law with respect to Indian lands allowing log exports is unchanged.

Since 1973, a ban on Federal logs has been included in the Interior appropriations bill, replacing the Morse amendment. I think it is time that this ban which we have successfully fought for every year, become permanent law. Earlier this year the administration's budget proposal recommended lifting the ban on Federal log exports. After further review, I am pleased to report that the administration has decided to drop their opposition to the Federal ban. In their letter to Senator Hatfield and me they recognized that "lifting the ban could have an adverse effect on the environment."

SUBSTITUTION

My Federal log export bill also eliminates the loopholes in current law permitting log substitution. Substitution is used by companies to replace private logs exported with Federal logs. Federal regulations prohibit companies from using Federal logs in their mill operations to replace the private logs exported. The regulations do allow some companies that purchased Federal timber and exported private timber between 1971–1973 to continue this practice at the historic levels. These historic quotas are no longer necessary because there has been ample time for these exporters to adapt to the market. My legislation would phase out the historic quotas over the life of existing Federal timber sales contracts. These companies should not be be provided an unfair advantage over other timber companies. I understand that in some cases when these companies have gone out of business, they have transferred this benefit to new companies. This anticompetitive practice is injurious to the nation's forest products industry and should be phased-out.

THIRD-PARTY SUBSTITUTION

The practice of third party substitution would be eliminated in S. 754. Federal regulations allow log export companies that are re-

stricted from purchasing Federal timber to buy Federal timber from other companies, referred to as third parties, to replace timber from private lands that is exported.

This bill requires the Secretary of Agriculture and the Secretary of the Interior to develop coordinated and consistent regulations to phase out both direct and indirect substitution. It is time to close this loophole in the current log export law. Currently, the Forest Service and the Bureau of Land Management have their own regulatory systems that are complex and conflicting. The GAO statement submitted for this hearing reinforces the need to develop coordinated regulations on log exports. They also recognize that enforcement of the current regulations is almost impossible to administer and susceptible to abuse.

During the preparation of new regulations, technical issues such as the value of tributary areas, the geographical areas from which logs flow to mills, should be analyzed to determine if a tributary area program is workable. The intent of my legislation is not to prohibit the use of public timber in all cases by a company that exports private timber. Rather, reasonable tributary boundaries could be established in limited cases with public participation where a log flow between different timbershed areas is not economical or logical.

The Forest Service estimates that over 200 million board feet of logs are being replaced by substitution (both direct and third party). This is enough logs to keep four medium-sized mills operating in my State of Oregon. In an era of short timber supply for Northwest mills, it is not sound policy for us to be shipping those unprocessed logs overseas. I do not believe it is sound resource policy nor does it make economic sense to be exporting a commodity in increasing short supply.

INTERNATIONAL RESTRICTIONS ON LOG EXPORTS

Other timber producing countries have strict regulations on the export of logs. For example, the Province of British Columbia requires logs to be processed before they leave British Columbia. In fact, British Columbia taxes at a rate of 100 percent the difference between the value of domestic logs and that of exported logs. For example, if the price of logs used domestically is $300 dollars per thousand board feet and the price of logs bought for export is $400 dollars per thouand board feet, you would pay a 100 percent tax on the $100 differential. That is a major disincentive to export logs instead of finished lumber. Other provinces in Canada have also set limits on log exports. Indonesia, which used to be the largest exporter of logs to Japan, has imposed very strict regulations and is now one of the largest exporters of plywood to Japan. Furthermore, countries that restrict exports of logs do not eliminate job opportunities. Rather, they create jobs for value-added wood products. Other countries having log export restrictions are Malaysia, the Philippines, Papua New Guinea, Thailand and Brazil.

TRADE POLICY ON LOG EXPORTS

Mr. Chairman, you may be wondering why the free-trader Bob Packwood is advocating restrictions on the export of logs. The

answer simply is that I do not believe it is sound public policy to be exporting critical natural resources in short supply. The old growth forests of the Pacific Northwest are in increasing short supply and the situation is only getting worse.

Moreover, I don't believe the log export bills run counter to my free trade principles because the bills are consistent with the General Agreement on Tariffs and Trade [GATT]—an international body designed to liberalize trade. While it is true that the GATT generally prohibits export restrictions, there are several exceptions to this rule. Specifically, Article XI (2) and Article XX (j) provide exceptions for products in short supply, and Article XX (g) allows restrictions on exports to conserve exhaustible natural resources if such measures are made in conjunction with restrictions on domestic production and consumption. And that is exactly what is happening. Based on draft forest plans called for by the National Forest Management Act of 1976, the Forest Service predicts there will be a 20 percent reduction in the timber sales program of Oregon and Washington. These plans removing land available for timber harvest will only exacerbate the shortage of timber. Other land classifications which have removed forest lands from the timber base include wilderness designation, wild and scenic rivers designation, and protection for the northern spotted owl.

STATE LOG EXPORT BILL

My second bill, S. 755, similar to a House bill introduced by my friend Congressman Peter DeFazio, would provide the congressional authority needed for Oregon and all states to prohibit or restrict the export of logs from State-owned lands. This legislation is necessary because of a 1984 Supreme Court decision, *South Central Timber Development* v. *Wunnicke.* At issue was an Alaska state law requiring state logs to be processed in the State of Alaska prior to being exported. The Alaska law was challenged as an infringement on Federal authority to regulate international trade under the Commerce Clause. The Supreme Court stated "congressional intent must be unmistakably clear" with respect to state delegation under the Commerce Clause. Mr. Chairman, this bill would provide that unmistakably clear congressional intent by explicitly granting States the authority to regulate log exports from State-owned lands. We are not requiring states to restrict log exports but simply giving them the option to do so if they so wish. Earlier this year the people of Oregon overwhelmingly approved a ballot measure supporting a ban on the exporting of logs from state lands. Idaho has also passed legislation restricting the export of logs from State-owned lands.

CONCLUDING REMARKS

Mr. Chairman, I believe these two log export bills will enable both the states and Federal government to develop cohesive and constistent policies governing the export of logs from Federal and State lands. A shortage of timber in the Pacific Northwest is a reality and I believe it will be further aggravated in the years to come. Restricting log exports is an important step necessary to address Oregon's timber supply problems.

Mr. Chairman, I look forward to working with the Senate Banking Committee on these two bills.

Senator SARBANES. Thank you. I just have one or two questions. First of all, do you know if the countries to whom we are exporting unprocessed timber maintain restrictions or limitations on the export from the United States of finished wood products?

Senator PACKWOOD. Most of the—China and Japan are the principal countries, not Seoul, but principal countries to which we export. They are both, by and large, short of wood. So that we have been having some success in getting additional lumber into Japan. They still buy many more logs than we do. They have a very small, inefficient sawmill industry and they use the logs to mill them there.

But they do not ban the import of lumber from the United States.

Senator SARBANES. By "lumber," you mean finished wood products?

Senator PACKWOOD. Finished products, that's correct.

Senator SARBANES. And they don't restrict it or limit it?

Senator PACKWOOD. It is the usual question when you're dealing with Japan, if you were to look in their laws and you say is there a restriction on the import of lumber, you would not find it in their laws. We have some difficulty with the distribution system.

But, by and large, American lumber producers have been having increased success in getting into the Japanese market and the Chinese market.

Senator SARBANES. Well, thank you very much. We appreciate your full testimony and we are pleased to have been able to hold this hearing. I know you've requested it now for some time.

Senator PACKWOOD. Thank you.

Senator SARBANES. Senator Gorton.

STATEMENT OF SLADE GORTON, MEMBER, U.S. SENATE, FROM THE STATE OF WASHINGTON

Senator GORTON. Mr. Chairman, in your opening remarks, you referred to the bill passed by the new Congress of the United States as a rider on the Interior Appropriations Act, dealing with short-term log supply in the Pacific Northwest off Federal lands.

That was unanimously supported by the Delegations of Washington and Oregon in both Houses. And during the course of the time during which it was being developed, we had all agreed simply to lay aside the divisive and controversial issue of a ban on log exports.

On the morning on which the Interior appropriations bill was passed, I spoke on the floor of the Senate in favor of it and stated that a long-term solution to log supply for which we are looking would require us to look at every aspect of the supply question, including that of log exports.

Now, I regarded the willingness of Senator Packwood and of others who feel as they do to set that issue aside during the course of the development of that position, to be most statesman-like.

And the only appropriate response is that their position be considered at this time.

As a consequence, I believe that it is appropriate to discuss all aspects of this question now, but I think it vitally important to point out to this Committee that it is only one aspect and probably not the most important aspect with respect to the future of the forest products industry in the Northwest.

I don't believe that either of these bills should be considered alone or in isolation. I believe that both of them, and the ideas expressed in both of them, should be considered as a part of the package to solve the challenges which are facing the Pacific Northwest in the long term.

Given that overall position, I agree with Senator Packwood that a permanent ban on the export of logs from U.S. Forest Service land or from Federal lands may now be appropriate.

That won't be a change in policy. We've done that on an annual basis as a rider to the Appropriations Act for a number of years.

I don't believe that a ban on all substitution is going to be appropriate even now. I think regulations dealing with substitution should not only be tighter, but they should be parallel with respect to the Forest Service and the Bureau of Land Management.

But, some third-party substitution is an essential market function that we should continue to permit subject to very tight regulation.

With respect to S. 755, the proposal to allow States to ban the export of logs from State lands, I continue to believe that an abdication of Federal trade policy and a devolution of that policy to individual States is not the answer.

Foreign trade is quintessentially a Federal constitutional issue, and foreign trade policy should be decided here by the Congress and by the Administration and not by individual States.

I should also like to point out, Mr. Chairman, that in this connection, in the Pacific Northwest, this is primarily a Washington problem and not an Oregon problem. Only about 2 percent of the total timber harvest in Oregon is from State lands; roughly 12 percent of the timber harvest in Washington is.

It is a much more important issue in my State than it is in that of Senator Packwood.

But, following on my view that the log export issue should now be reviewed, Congressman Swift from the State of Washington and I have been working together for several weeks to see whether or not there isn't a reasonable middle ground, under which these issues are decided here at the Federal level and not necessarily on an all or nothing basis. We note that for two or three decades, there have only been two positions on log exports—polar extremes.

We are working on ideas. I must tell you, Mr. Chairman, that we are far from having perfected them. Basically, our objectives are these: first keep the Federal government in charge of this policy; second, ensure that the free trade of private timber remains unaffected; third, permit temporary and, as appropriate, partial restraints on the exports of unprocessed State timber at times in which such restraints are appropriate and are necessary for the economic viability of the small mills which have no timber base themselves. And, finally, at the same time provide incentives for those small mills to improve their competitiveness.

The initial portions of these ideas we have shared with our Governor, Booth Gardner, who has encouraged us to go forward with them.

So, from my perspective, Mr. Chairman, the appropriate action here is to postpone action on these bills pending the outcome of long-term timber supply negotiations involving all of the members of Congress, in both Houses and in both parties, in the Pacific Northwest.

I'm quite certain that when those negotiations are complete, restrictions with respect to the export of State logs will be a part of them.

In a sense, we could use the metaphor that you all are asked to be doctors here, to prescribe medicine for a patient whom you have not seen and who clearly has major ills other than those which are covered by this proposed prescription.

And with that, Mr. Chairman, I thank you for your indulgence and your kindness in dealing with the problem which is so vitally important to us, but only of indirect importance in your own State.

[The complete prepared statement of Senator Gorton follows:]

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COMMITTEES:
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TESTIMONY BY SENATOR SLADE GORTON
REGARDING S.754 and S.755
TO THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY
NOVEMBER 7, 1989

Mr. Chairman, members of the Committee, thank you for the opportunity to testify today on the subject of softwood log exports.

Before commenting directly on the two bills before you, I would like to make some observations on the general subject:

First, in holding this hearing, you have entered one aspect of an intense and complex debate in the Pacific Northwest on timber supply and land use. Log exports are a part -- albeit a small one -- of this overall debate.

Second, there is a broad effort now underway among the Northwest delegations to address the complex issues of long-term timber supply. I believe that <u>every</u> issue related to that debate -- including this one -- should first, be on that table for discussion, and second, be resolved <u>within</u> that discussion, unless that forum for resolution of the problem fails. I say this will all due respect and deference to the committee -- my point is not to avoid your jurisdiction, but merely to settle our intramural debates <u>before</u> bringing you any bills, rather than to inject you into them prematurely.

Third, while you know that I have been a staunch supporter of log exports in the past, I believe the issue deserves a place at that regional negotiation table.

Finally, and for that very reason, today's hearing is helpful. The question of whether and how to permit trade in raw logs touches many aspects of public policy. The more we discuss the issue, I believe, the more likely we are to avoid mistakes in addressing them.

Now, as to the legislation before you.

S.754 would make permanent the ban on export of federal logs, and would, for all intents and purposes, eliminate all practices known as "substitution."

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If a permanent ban is agreeable to the parties of the negotiation, and to the GATT, I suspect that the symbolic value of removing an annual anxiety justifies such a move.

In practice, substitution is really two activities: the first is the practice by some companies of purchasing federal logs for domestic use while exporting private logs in the same area. Congress grandfathered these practices when it banned export of federal timber. So the first policy question embedded here is whether the basic fairness of that original decision remains; I suspect that it does.

And the second question is whether the regulations that govern this practice fairly carry out the intent of Congress. I suspect that in part they do not. As the new GAO report indicates, the BLM regulations permit the grandfathered levels of substitution to actually increase. That was not the intent of Congress. I support correcting this disparity. However, I do not presently think it necessary or fair to eliminate this practice altogether, as S.754 would do.

The second substitution activity is a complex process in which the free market insures that a federal log cut is a federal log used, usually called "third-party" substitution. It is necessary because many buyers of federal timber cannot directly process every species and grade in a given sale. I oppose a ban on third-party substitution, because it would result in lower bid prices for federal timber and, in some cases, force successful bidders to leave enough fallen timber on the ground as to actually inhibit the best possible reforestation.

It is true, Mr. Chairman, that strong perceptions exist regarding abuse of substitution rules. I believe that stems first from the disparity in regulations I have just noted, second, because the processes for regulating these practices are not sufficiently open to scrutiny and hence public understanding, and third, because as the agencies themselves admit, their methods for insuring compliance are meager. However, I also believe that the forest products industry and the Northwest delegations can find solutions which eliminate some of the reasons for the perceptions of abuse, can give greater certainty to all concerned that the intent of the law is being followed, and still allow a secondary trade of federal logs for domestic use. The complete ban proposed in S.754 is not the answer.

S.755 would allow states to set their own export policy with respect to logs sold on land they own or manage. I cannot conceive of a worse precedent for this committee to set in the area of national trade policy than to abdicate jurisdiction.

It must be remembered that this is largely a debate that affects the state of Washington, not Oregon or other Northwest states. (In Oregon, state-owned timber is but 2% of all timber harvested. In Washington, state timber is 12% of the harvest. And the missing link in timber supply, of course, is federal timber. In Washington state, forest service timber accounts for 28% of the timber ownership, but only 21% of the harvest. If the private timber owners were not cutting a much higher share of their land, the region would truly be in a disaster.)

Most important, if for some reason a complete and permanent ban on Washington state timber exports were enacted, it would be too much medicine of the wrong kind, and not enough of the right kind. I don't need to repeat what others will tell you regarding the overall economic and social benefit to Washington state derived from exports of state logs. And I assure you that before this hearing is over, you will readily see the complexity of issues at stake here.

Rather, in this connection my point is that while clearly there is a serious shortage of timber available at a price our highly competitive domestic processing industry can afford, it is also clear that <u>permanently</u> banning state log exports will add no timber to the total harvest, plant no new trees, or bring any lasting solution to the debate over the uses of Forest Service land. A long-term timber supply negotiation might. And if it does, that is where any real cures to imbalances between supply and demand will arise, not in new divisions of a shrinking pie.

That said, Mr. Chairman, I also see differences between the conditions leading to today's log export debate, and those of the past.

Normally, the intensity of the log export debate rises with log prices. And when strictly market forces are at work, I resist the appeal to meddle. But when the natural effects of strong demand combine with the unnatural effects of lawsuits and Congressionally-mandated set-asides, I see the situation somewhat differently. In these circumstances, we may well have an <u>obligation</u> to intercede, so as to prevent unwanted and unnecessary damage to the independent sector of our forest products industry.

I hope that the long-term timber supply negotiations will bear fruit. I certainly believe they can. If so, these unnatural side-effects in the market will be temporary. Yet if a permanent "remedy" such as S.755 were applied to a temporary problem, I believe the overall effects in the Northwest would be profoundly

harmful.

It seems to me that so far in this debate, what has escaped us all is a solution that recognizes the truly unusual conditions present in the market today, which could be applied in a manner appropriate to problem. That is, **a remedy that can be applied from the federal level in a way that would be temporary, predictable, and if necessary, partial.**

With the help of Congressman Al Swift of Washington state, I am now working on such a proposal. We believe it can be crafted in such a way as to avoid the policy pitfalls of S.755. Furthermore, we have shared these general concepts with Governor Booth Gardner, and he has assured us that he supports this approach. I hasten to add that I think any agreement on this issue must ensure that the export of private logs continues indefinitely and without interruption. And finally, while we would welcome the ideas and cooperation of Senator Packwood and members of this committee -- all of whom we believe will be essential to actual passage of any such proposals -- we believe that the first forum for developing consensus on these matters, as I said, is in the long-term timber supply negotiations.

Therefore I urge the Committee to postpone any further consideration of S.754 and S.755. You are like doctors being asked to prescribe medicine for a patient you cannot examine. If national trade policy is to be applied to a terribly complex regional economic and environmental dispute, let it be done after the complete diagnosis, not before.

As with the circumstances that led to the Northwest Power Act in 1980, only a regional consensus will support such a legislative effort. Then, under the leadership of Senators Magnuson, Jackson, and others in the region, a long, hard-fought, complex battle came to a successful end. Comprised as they are of members from throughout the nation, it is unreasonable to expect that any committee of Congress could have invested the time to negotiate that solution. Conversely, under the leadership of Senators Hatfield and Adams, and Speaker Foley this past summer, the Oregon and Washington delegations once again showed that they <u>can</u> work together on tough, divisive issues. On the <u>long-term</u> supply issue, of which exports are one part, we are just beginning the several aspects of the discussion. I ask that the Committee allow the region the first chance to resolve these issues, and then help us in the future, if we in the region agree that we need your able assistance.

Thank you.

Senator SARBANES. Thank you very much, Senator Gorton. Let me just put one or two questions to you.

It's your view that you support the aspect of S. 754 that would make permanent the ban on the export of Federal logs, which has now been annually attached as a rider to the Interior Appropriation Bill.

Is that correct?

Senator GORTON. I do.

Senator SARBANES. The substitution aspect of it, I take it, that's contained in that legislation, from your point of view, needs further examination or refinement.

Is that correct?

Senator GORTON. Yes, I do. You may or not be aware, Mr. Chairman, that there is a recent GAO report on substitution, on the extent to which it is used to get around these export restrictions and the like.

I commend that to you as being a thoughtful and objective study of the issue. One of the principal problems has been that the substitution rules of the Forest Service differ from those of the Bureau of Land Management. Certainly, at the minimum, they ought to be the same. They ought to be harmonized with one another.

And where there are misuses of substitution, those misuses should be prohibited.

Senator SARBANES. Very good.

Well, thank you very much. We very much appreciate your testimony. I have a statement from Senator Dixon that will be insert in the record at this point.

STATEMENT OF SENATOR DEXON

Senator DIXON. Mr. Chairman, I am pleased to be here this morning as the International Finance Subcommittee considers two log export bills, S. 754 and S. 755. We have a good group of witnesses before us this morning, and I look forward to their testimony.

As I understand it, S. 755 authorizes States to prohibit or restrict the export of unprocessed logs from State-owned or administered lands. S. 754 restricts the export of unprocessed timber from certain Federal lands.

I hope all our witnesses will address two issues raised by these two bills. First, I hope they will address the export policy issue raised by delegating to States the authority the Federal Government now exercise in this area. This issue is an important one, and I have to say that I am rather skeptical that this kind of delegation is sound export policy. Second, I hope all the witnesses will comment on the section 7 short supply control authority that already exists under the Export Administration Act. There is a good argument that this authority would seem to make both bills unnecessary, since section 7 provides very broad authority to deal with short supply problems. If the section 7 authority is not adequate to deal with any raw log short supply problems that may exist, each witness should explain to the subcommittee in specific terms why it is not and why additional legislative relief is necessary.

Senator SARBANES. Governor Goldschmidt, we would be very happy to hear from you.

STATEMENT OF NEIL GOLDSCHMIDT, GOVERNOR, STATE OF OREGON, SALEM, OR

Governor GOLDSCHMIDT. Thank you, Mr. Chairman.

On June 27, 1989, the citizens of my State of Oregon amended our State Constitution to prohibit sale or export of timber from State lands unless it will be in processed in Oregon.

The ballot measure also directed State officials to use all legal means necessary, one, to request that the Federal policy continue the existing congressional prohibition of sales of unprocessed timber from Federal lands for export; two, support and assure passage of Federal legislation authorizing States to require in State processing of timber severed from State-owned lands; and, three, to insist that the U.S. Secretary of the Interior and the U.S. Secretary of Agriculture vigorously administer and enforce the existing prohibition of sales of unprocessed timber from Federal lands.

This ballot measure, supported by industry and conservation organizations, passed by a vote of 446,000 to 48,000, one of the largest margins in our State's history.

Oregonians have done all that they can do within our own statutes and Constitution to ban log exports from State lands. We obviously hope now that Congress will act.

If you will, just a minute on why we care so much about this.

Starting in 1933, four great forest fires swept Northwest Oregon, burning over 350,000 acres. The destruction was so widespread that the U.S. Forest Service concluded in 1945 that it would be, "beyond justifiable human effort to try and reforest the land."

Oregonians rejected that verdict. First, they authorized the State to acquire the tax-foreclosed lands from the counties. Then the people decided to do something. They voted millions of dollars in State bonds to finance the reforestation effort that many believed to be impossible.

The promise to the people, the one that they decided to invest in, was that scarred land would again become a productive, self-supporting, multiple purpose forest. And, remarkably, the people have succeeded because by 1973, 73 million trees had been planted. School children planted trees. Loggers gave their time and funds. Unions supplied food, industry donated seedlings.

The only Federal aid in the entire effort was the financing for one road. Today, Oregon owns and manages 785,000 acres of forest. Nearly 60 percent of that total is in Northwest Oregon, the area of the Tillamook Burn.

These forests are managed to provide employment, supply raw materials to meet the demand for forest products and provide community stability.

My predecessors could have chosen otherwise than to invest in our State funds in this effort, but the citizens wisely chose to invest in the forest.

Currently, 212 million board feet of timber are harvested from State lands. This will increase to 489 million board feet by the year 2050. Today, we believe over 40 percent of the timber harvested from State lands is exported, not processed in Oregon mills.

If you had planted trees for the future of your State, dreaming of the day in the future when they would provide jobs and mills for

your children and your communities, how would you feel to see these logs being shipped out unprocessed to the Far East?

It simply hasn't made sense to our citizens. And it does not.

I want to submit the balance of my testimony, if I may, for the record, Mr. Chairman, and if I can make six points.

Senator SARBANES. Fine. The full testimony will be included in the record.

Governor GOLDSCHMIDT. First, I want to second Senator Packwood's comment about Federal timber supply. We have a State team that has been working along with the Forest Service looking at all 13 draft plans. It is imminently possible that the supply will drop by 20 percent. Timber prices currently are again reaching all-time highs. It is creating enormous pressure in the marketplace.

Second, we do not want to make foreign policy. I want to politely disagree with all who think the goal here is for Oregon to have a foreign policy. I am perfectly happy to have us incorporated in the Federal policy. I recognize it puts Oregon at risk should the U.S. Congress in the proper exercise of its power and authority choose to sell logs off of Federal land.

But, if the choice continues to be, and we hope it will continue to be that Federal logs will not be sold without being processed here first, we think that our State should be able to elect to join you.

Third, the main mission of changes in Federal forest practices over the last 15 years has been to improve conservation practices on Federal land. We have done the same, cutting back harvest near watered areas, streams, increasing fishery, and so on. The pressure to over-cut these lands is enormous and the pressure is being increased by mere shifts in foreign purchasing power by changes in the currency.

We think we ought to be able to manage these with an adequate supply for community mills without any pressure from people overseas simply because of an accident of currency.

Next, we welcome foreign investment. I want to add to Senator Packwood's comments about being consistent with free trade policy. We are in discussions with foreign investors now about pulp plants in the State. A third of the chips which come off the forests in our State continue to be shipped overseas. We are encouraging foreign ventures or sole investments. We would do the same thing in lumber.

And I might, in Canada, in British Columbia, where it is very clear the Canadians are moving in the direction we are talking about here, in British Columbia, we are beginning to see the signs of foreign investment, process on our side and ship overseas.

The last two points I want to make are these:

The proceeds from this fund, and I think this may be similar to the State of Washington, whatever proceeds we have go to a common school fund for the education of our children. There have been private stands of timber available for the State Common School Fund to acquire as private people could acquire it. We have elected not to make any acquisitions. We do not believe how we could explain taking additional resources from the Fund and investing on behalf of the children and ending up with no jobs for their parents; which brings me to the last point.

The dislocation in our industry is quite substantial. Part of it is inevitable because of productivity. But, the part that has to do with people standing as they watch the logs head down the road to be dropped in a harbor to be shipped overseas unprocessed is almost impossible to explain.

Almost everybody in public life in Oregon has discussed this with governments of the foreign countries who buy our raw material. And in each case, they say:

> You make the rules and we will follow them. We recognize your problem; you have to recognize ours. We don't want to deal with this as a political issue in Japan or the People's Republic or Taiwan or South Korea. If it's important enough for your Government to deal with it, we will respect you accordingly.

We hope that the time has come when it is important enough. We recognize the State forests are a small percentage of the supply, but we are a big potential participant over the long run.

And we appreciate very much, Mr. Chairman, your interest in this subject.

[The complete prepared statement of Gov. Goldschmidt follows:]

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Testimony of Neil Goldschmidt
Governor, State of Oregon
before the
International Finance Subcommittee
of the
Senate Banking Committee
November 7, 1989

I am Neil Goldschmidt, Governor of the State of Oregon. I am here today to support Senator Packwood's bills, Senate Bills 754 and 755. Passage of S. 754 would make the existing federal log export ban a permanent part of federal law, avoiding annual consideration of the issue in appropriations bills. S. 755 would authorize the state to restrict log exports from their own lands. The bills respond to widespread concern about public land log exports.

On June 27, 1989, Oregonians amended our state Constitution to prohibit sale or export of timber from state lands unless it will be processed in Oregon. The ballot measure also directed state officials to use all legal means necessary to:

1. Request that the federal policy continue the existing Congressional prohibition of sales of unprocessed timber from federal lands for export;

2. Support and assure passage of federal legislation authorizing states to require in-state processing of timber severed from state-owned lands; and

3. Insist that the United States Secretary of the Interior and the United States Secretary of Agriculture vigorously administer and enforce the existing prohibition of sales of unprocessed timber from federal lands.

This ballot measure, supported by industry and conservation organizations, passed by a vote of 446,151 to 48,558, one of the largest margins in state history. Oregonians have done all we can on our own with our statutes and Constitution to ban log exports from state lands. Now it is time for Congress to act.

Why do Oregonians care so much about log exports from public lands? The answer has a lot to do with why the State of Oregon owns forest lands. Perhaps today with recent natural disasters fresh in all our minds, like the California earthquake, hurricane Hugo and the 1988 Yellowstone forest fires, you may be better able to understand Oregonians' relationship to their state forests. Most of our state forests literally grew from a natural disaster.

Starting in 1933 four great forest fires swept northwest Oregon, burning over 350,000 acres. Destruction was so widespread that the U.S. Forest Service concluded in 1945 that it would be "beyond justifiable human effort" to try and reforest the land. Oregonians rejected that verdict.

First, they authorized the state to acquire the tax-foreclosed lands from the counties. Then the people decided to do something. They voted millions of dollars in state bonds, to finance the reforestation effort that many believed to be impossible. The promise to the people, the one they decided to invest in, was that the scarred land would again become a productive, self-supporting, multi-purpose forest.

Remarkably, the people succeeded. By 1973, 73 million trees had been planted. Schoolchildren planted trees, loggers gave their time and funds, unions supplied food, industry donated seedlings. The only federal aid in the entire effort was financing for one road. Today, Oregon owns and manages 785,000 acres of forest. Nearly 60 percent of that total is in northwest Oregon, the area of the Tillamook Burn.

Our state forests are managed to provide employment, supply raw material to meet the demand for forest products, and provide community stability. We could have chosen to invest our state funds and citizen efforts otherwise, but we chose to invest in our forests. Currently, 212 million board feet of timber are harvested from state lands. This will increase to 489 million board feet by 2050.

Today, over 40 percent of the timber harvested from state lands is exported. It is not processed in Oregon mills. If you had planted trees for the future of your state, dreaming of the day in the future when they would provide jobs in mills for your children, how would you feel to see those logs being shipped out unprocessed to the Far East? Would this make sense to you when Congress has already decided that it is poor public policy to export raw logs from federal lands?

Under current laws, only states, as landowners cannot decide for themselves whether or not to sell their products to exporters. Private landowners and the federal government can decide, based on their own best judgment, to whom they want to sell. The United States Supreme Court decided in South-Central Timber Development, Inc. v. Wunnicke, 467 U.S. 82 (1984) that Alaska's requirement that state timber be processed in state violated the Commerce Clause of the U.S. Constitution, even though Congress had long restricted log exports from federal lands in Alaska. Oregon's existing statutory restriction on log exports has not been enforced since this decision.

We are not asking to be treated differently. We simply want to be able to apply the same policy to our state forest lands that Congress has long applied to federal forests. Log exports from federal forests have been regulated by the federal government since at least 1928. In the late 1960's, concerns about the future availability of adequate raw material to meet domestic needs prompted additional restrictions on log exports from federal lands. In 1973, all log exports from western federal forest lands were banned. The only exception is for logs declared surplus to domestic needs. Why, if it is good public policy for federal public timber to support local community stability, is it not good policy for state public timber?

Why is it good public policy to restrict log exports from state and federal forest lands? We need the logs domestically. Today our timber supply crisis is worse than it was in the 1960s. All economic studies of timber supply in the Pacific Northwest agree that timber supply from all ownerships will decline in the next decade. Harvest from private lands will decline because the trees have already been cut and now new trees are growing. National forests and other federal timber lands are managed for multiple use. Draft plans for the National Forests would result in a 20 percent reduction in harvest if they are adopted.

The reductions in harvest from federal forests is due to the demand for other resources from our public forests: wilderness, recreation, scenic vistas, fish. Continued log exports increase the pressure for additional harvests from federal forests, making it more difficult to meet the many demands on our national forests and public lands. This is another good reason to restrict log exports: to reduce the pressure to meet our domestic timber supply needs from federal forest lands needed for many different uses.

The third reason is probably the most important. When we export public timber, we export jobs. The economic value to be gained from domestic processing is forever lost. Every year for the past four years over one billion board feet of unprocessed logs have been exported from Oregon. Taking 1987 data, 226 million board feet were sold from state lands and of that about 98 million board feet were exported. One million board feet of unprocessed logs will supply about 4.5 sawmill jobs. The logs exported from state-owned lands in Oregon alone in 1987 could have supplied between 400 and 500 jobs in Oregon mills. Each of these jobs would produce one to two more indirect and induced jobs through the multiplier effect.

Log exports affect the price of timber available to domestic mills. When supply is short, prices increase anyway. When exporters enter the bidding for public timber, they can afford to pay a premium over domestic buyers due to international currency differences. When the dollar is low compared to the yen, exports increase. This upward pressure on timber prices increases the cost of production for domestic mills and undercuts their efforts to improve their international competitiveness.

There is another sound business reason to restrict log exports from public lands. If local mills are forced to close due to short raw material supplies, there will be no one there to bid at all when the inevitable international monetary fluctuations occur. This is the essence of short-sightedness: rather than supporting a competitive local manufacturing environment, we allow domestic buyers to be driven out of business by high priced export bidding, the export market turns down, and there are no mills left here willing to buy. Or, equally as bad, the few exporters left only bid at the minimum. Our focus as a Nation ought to be using our public resources to assure healthy, competitive local mills in order to maximize long-term benefits.

One of the main objections to log export restrictions is that the government makes less money on timber sales if only domestic mills can buy. This is not the case on state forest lands, in our opinion. It is difficult to analyze the actual bid premium attributable to exports. The premium, if any, can only be determined if at least one exporter bids against a domestic processor on a sale. The large premiums only occur if two exporters bid against each other. Otherwise, the exporter simply bids the minimum necessary to beat the domestic buyer.

One analysis we did on our Coos Bay District from 1982-1987 shows that an average exporter only bid $7.59 per thousand more above the appraised value than did domestic buyers. If you eliminate the cases where two exporters bid against each other, the average premium drops to $2.39 per thousand. In some cases, the "premium" was as little as $.50. Such small short term cash gains cannot begin to offset the lost revenues due to mill jobs.

The other main objection to log export restrictions from public lands is that such restrictions violate our free trade principles. This argument ignors the very reason governments, state or federal, own forest lands. Public forests are owned by the federal government and the State of Oregon for many reasons. One reason has always been to supply timber for our wood products industry. For that reason, Congress has decided that timber from federal lands should be sold to domestic purchasers, not exported. This is not an international trade issue. It is simply a matter of deciding how public forest resources ought to be managed in the public interest. Neither bill before you today regulates what private companies do with the timber they grow, nor does it regulate the commercial activities of foreign companies. Rather, these bills establish a domestic preference in purchasing public resources.

Public lands should contribute to addressing public needs. There is a real timber supply need in the Pacific Northwest now. Timber that is harvested from our federal and state lands can make an important contribution to meeting this need. Limiting exports is one positive way to do this while protecting other non-timber resources and saving American jobs.

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Senator SARBANES. Well, thank you very much, Governor Goldschmidt.

Senator Gorton made the point that only 2 percent of timber harvested in Oregon is State-owned timber.

Therefore he was suggesting that the dimensions of the problem in Oregon were very different than they are in the State of Washington.

Do you have any observations on that comment?

Governor GOLDSCHMIDT. Well, the major difference in the dimension is, apparently, the State of Washington continues to feel comfortable exporting its logs. And I think they can have that choice.

We are about 5 percent, I think, of the harvest but it isn't quite accurate to say that it is of no consequence because it is almost all in two specific basins; that is, where it is located, it is in many respects the preeminent or dominant supplier of timber.

Over 90 percent of the trees which go to a mill in our State today come from Federal land. If you back off that supply in the current cycle by about 20 percent of supply and then begin to look at these issues that Senator Packwood raised on substitution, begin to look at the unnecessary export of logs off of State land, which is inconsistent with current Federal policy, I think we can reduce the pressure to overcut and make sure the price of timber in the United States is reasonable for people to have housing. Our citizens can have jobs. And, frankly, I think we can do no damage to any foreign interests.

So all we really ask is let us join in whatever policy you make. If the decision this Committee makes is to start exporting logs off of Federal land, we understand we will be sent with you.

Senator SARBANES. What was the policy in the State of Oregon—I want to be clear on this—prior to the Supreme Court decision?

Governor GOLDSCHMIDT. We had a State Constitutional provision different slightly from the one we have now, which had been interpreted to prohibit exports from certain state lands. We also had a state statute prohibiting log exports. And were enforcing it, until we were advised by the Attorney General that he was—back in the days when Senator Hatfield was, in fact, I think a Governor, that early—that it might be illegal.

The subsequent case of course has turned out to say, in fact, that we had no power to have such a statute without Federal permission. And our Constitutional provision that has now been passed is explicit in saying that it depends on such Federal agreement.

Senator SARBANES. Well, thank you very much.

Governor GOLDSCHMIDT. Thank you, Mr. Chairman.

Senator SARBANES. We very much appreciate your testimony.

We'll now hear from a panel of our colleagues from the House of Representatives. And if they would all come forward and take seats at the table—Congressman DeFazio, Congressman Miller, Congresswoman Unsoeld, and is Congressman Williams here with us?

[No response.]

Senator SARBANES. Well, we'll proceed. He may be able to join us.

Peter, why don't we start with you? We'll move right across the panel if you wish.

STATEMENT OF PETER A. DeFAZIO, MEMBER, U.S. HOUSE OF REPRESENTATIVES, FROM THE STATE OF OREGON, FOURTH DISTRICT

Representative DEFAZIO. Thank you, Mr. Chairman. I'd ask unanimous consent that my full remarks be entered into the record.

Senator SARBANES. They will be so included.

Representative DEFAZIO. Thank you, sir.

Mr. Chairman, I'd like to thank you for holding this hearing today and giving us an opportunity to testify on the need for Federal legislation in the area of the export of unprocessed wood products logs on the Western United States.

I believe action is warranted in two areas. That would be, first, to make permanent the ban on the export of Federal logs and plug the loopholes in that law that have been identified in the GAO report which will be entered as testimony later this morning.

I also feel that we should extend authority to the States and allow them to restrict the export of logs off State land consistent—only consistent—with Federal restrictions.

First, on the State authority, the Governor has already waxed eloquent about the Tillamook Forest. In my District, the Elliot State Forest. Down on the southern coast is a premier supplier of public timber in the area. They virtually, 100 percent of the logs harvested off the Elliot State Forest are going overseas. And as of last year, the Port of Coos Bay exported 325 million board feet of logs, and all the mills were closed.

There were mills in the area that would have expanded production and/or added shifts had they been able to successfully acquire any of those State logs.

We allow private persons—I, myself, own some timber in eastern Oregon. I can choose whether or not to sell that timber into export. That's my right as a landowner.

The Federal Government has wisely chosen to restrict the export of logs west of the 100th Meridian. Yet, the States have no option. They are the second class citizen in this case. They do not have the right to private landowners. They don't have the right to Federal landowners. We're being told:

You are the only ones who must sell your logs into export. You have no choice.

The deficiencies in the Federal law are very, very well-outlined in the GAO report and I'll only go over them briefly. As they point out, the law is self-reporting and it is only enforced by informant actions. That is, it's self-reporting. It's not audited. And only in the case of an informant coming forward and contradicting information submitted by a log exporter will the Forest Service take action. And, generally, those actions follow three to five years the illegal activities that took place. And the enforcement actions have been very de minimis because of the confusion in the Federal regulations; even when they catch someone red-handed, they virtually take no action against that log exporter.

Tributary areas as defined—or not really defined, I should say. One exporter in my District chose the Interstate Highway as the tributary area. And he said that any logs harvested on one side of

the highway were not tributary to his mill so, therefore, he could export; and the other side was tributary.

He was the one person found in violation of the law and later lost one contract. That was his total penalty.

Tributary areas need to be better defined, I think defined through a public process.

Third party substitution. The GAO points out that they don't know how many logs are being substituted third party. And they point to the need for restrictions in that area.

Finally, the existing law is year to year. That is, it doesn't allow for long-range planning, long-range investment in the industry, because we don't know whether or not those restrictions might go away on Federal logs.

And there have been administration proposals under the Reagan administration to lift those restrictions.

You directed a question to an earlier witness regarding the Japanese barriers. I would say the Japanese barriers are substantial. And it would be logical for us to restrict the export of the raw material in an area where they have been so well-documented as discriminating against and restricting the importation of finished material. Bohemia Mill, for instance, Bohemia Corporation in my District, is the world's foremost producer of glue-laminated beams.

Yet, the Japanese have chosen to classify those beams as plywood. They know it's not plywood. They know it's not a translation problem. They know there shouldn't be a 15 percent tariff on those beams, but they are in the beginnings of a glue-laminated beam industry in Japan.

And as they have done so many times in the past, they are protecting an infant industry against foreign competition. There was a Commerce Department report which was requested by Senator Packwood last year, which for hundreds of pages documents everything from financing of the final product home down to the distribution system that, they discriminate against foreign-finished products or semi-finished products.

The other nations in the Pacific Rim have chosen to restrict the export of logs to Japan and, subsequently, their exports of finished products, or at least lumber products have increased dramatically.

Indonesia is an excellent example. Ten years ago, they exported 1 percent or provided 1 percent of the plywood in Japan. They prohibited the export of raw logs. They now produce 18 percent of the plywood used in Japan; whereas during the same time period, the United States has moved from a fraction of 1 percent to a slightly larger fraction of 1 percent, and we're being told by Weyerhaeuser and others to be patient.

Well, at that rate, you know, our forests will be gone before we make any in-roads into the finished market in Japan.

So, Mr. Chairman, I would say that it would be consistent to allow the States to have laws that were consistent with Federal law. It would be logical. It would not be so-called balkanization of trade policy; it would be extending States the rights that all other categories of land-holders have. And the Federal law itself, as loop-

hole-written and as poorly enforced as it is should be greatly enhanced.

Thank you, Mr. Chairman.

[The complete prepared statement of Representative DeFazio follows:]

STATEMENT OF THE HONORABLE PETER DEFAZIO

U.S. House of Representatives

before the

Subcommittee on International Finance and Monetary Policy

of the Committee on Banking, Housing, and Urban Affairs

November 7, 1989

Mr. Chairman and members of the committee:

First, I'd like to thank you for holding this hearing and giving me the opportunity to testify. The Pacific Northwest, and particularly Oregon's Fourth Congressional District which I represent, is facing a potential economic crisis. The crisis is the result of a growing shortage of timber for the region's wood processing industry. We're not crying wolf.

The question before this committee today is whether the Congress of the United States will stand idly by while a significant portion of the U.S. lumber and wood products industry sinks into decline, or whether we'll act in a manner consistent with our status as an industrialized nation. Put another way -- are we going to allow the western United States to serve as a tree growing colony of Japan?

My colleague from Oregon, Senator Packwood, asked the Commerce Department to look at Japanese wood products trading practices. Their report, dated April 1989, found that Japan systematically excludes our finished wood products from its markets, while encouraging the import of raw logs. The U.S. Trade Representative agrees. Japan's trade barriers to our finished wood products have been identified as a priority

practice under the so-called "super 301" provisions of the new trade bill.

The coalition that has grown up around the issue of log exports supports the maxim that "Politics makes strange bedfellows." Most of the timber industry in the Pacific Northwest supports further restrictions on the export of unprocessed logs. Organized labor is tired of standing on the docks and waving "Goodbye" to its logs and its jobs. Every major national environmental group in the nation is with us. And last summer, citizens in Oregon voted nine-to-one in favor of a ban on the export of logs from state lands.

Today you'll hear a litany of alarming statistics about the state of the timber economy in the Northwest. They are not overstated. Many communities in southwest Oregon depend almost entirely on one independent mill as their primary employer. Those mills depend in large part on a supply of timber from public lands. And that timber is increasingly scarce and expensive, due in part to the intense demands of the export market.

Log exports are only a part of the problem, but a big part. In 1988, one in four logs harvested in Oregon and Washington were exported unprocessed, compared to only two percent of the total harvest in 1962. Preliminary data for 1989 show no slowdown in the flood of raw logs from our ports.

It doesn't take a degree in economics to figure out that when we export logs, we export jobs. By one estimate, there are 3.5 jobs lost for for every one million board feet of logs that are exported. If you accept that estimate, then we

exported almost 13,000 timber industry jobs from Oregon and Washington in 1988. Even the Bush Administration admits that log exports lead to job losses. The Office of Management and Budget estimated that nearly 12,000 timber industry jobs would have been lost over three years had President Reagan's proposal to lift the federal ban gone into effect.

I'd like to address two significant aspects of the log export problem today: Exports from state owned or administered lands, and the huge loopholes in the ban on federal log exports known collectively as "substitution."

STATE LOG EXPORTS

Senator Packwood and I have introduced legislation to allow the states to regulate the export of logs from their own lands (H.R. 1191 and S. 755). No one really knows what percentage of timber harvested on state lands is being exported. Total harvests on state lands in Oregon and Washington in 1987 amounted to nearly 1.2 billion board feet. In Washington, it is estimated that two-thirds of the nearly one billion board foot state harvest was exported unprocessed. Oregon's State Forester estimates that 43 percent of the 230 million board feet harvested from State of Oregon lands was exported. He admits that his estimate is essentially a guess. Some analysts estimate that 75 percent of the state harvest is going for export.

Whether it's 43, 75, or 100 percent, it's important to note that the impact of those exports is concentrated in only a few areas -- areas that traditionally depended on that timber for their independent mills. For instance, mills in

Coos and Douglas Counties in my district traditionally purchased the timber harvested from the Elliot State Forest. But those mills can no longer pay the prices being bid by the exporters. Even the State Forester admits that at least 80 percent of the timber from the Elliot State Forest is being exported. That hurts.

Senator Packwood and I are only asking that each state be allowed to adopt policies that are consistent with longstanding federal policy. Private landowners can choose whether to sell their logs into export, or mill them at home. The federal government has wisely chosen to ban the export of its logs though, as we'll see, the ban is full of holes. But states have no choice -- they've got to sell their trees to an exporter.

In Oregon, we've invested heavily in our State Forests. The Tillamook Forest is a prime example. After fires in the 1930s and 40s devastated 240,000 acres of forestland -- destroying 13 billion board feet of prime timber -- Oregon voters approved a bond measure to rehabilitate the forest. School children, conservation groups, Boy Scouts and Girl Scouts, and thousands of other Oregonians joined to help replant the burned areas.

Mr. Chairman, it would be a crying shame if the trees in the Tillamook Forest now nearing maturity were harvested and exported to feed a highly protected and inefficient Japanese milling industry. I hope the committee will support S. 755 and allow the people of Oregon to enjoy the fruits of their investment.

SUBSTITUTION

In January of this year, I asked the General Accounting Office to investigate the Forest Service and BLM regulations governing direct substitution. As I understand it, their testimony will be submitted to the committee for the record. I'd like to highlight a few of their findings, but first -- an explanation.

Direct substitution works like this: I own a lumber mill and some nearby timberlands. Twenty years ago, I was milling my timber in my mill. Today, I'm selling that timber to a Japanese buyer, and competing with other local mills, many of them without private timber of their own, at auctions for federal timber. The huge profits I'm making in the export trade allow me to outbid many of my competitors for the few remaining federal timber sales being put up for bid.

That's direct substitution.

The ban on the export of federal logs is enacted annually in the Interior Appropriations bill. The language of the act bans all direct substitution. But in 1974, the ranking members of the House Interior Appropriations subcommittee saw fit to grant an exemption in the legislative history for companies with historic levels of direct substitution. Mr. Chairman, I read the legislative history to say that "grandfathered" substitution was supposed to be phased out over time. It's time to do just that.

The Forest Service and BLM wrote very different regulations governing direct substitution. The Forest Service limits substitution to those companies buying Forest Service

timber between 1970 and 1973, while selling their own timber into export. The BLM allows a company to ratchet its purchase and export levels up -- indefinitely. The BLM regulations even allow a company that did not export logs in the years before the federal ban to begin exporting, while still purchasing federal timber. In my opinion, the BLM's regulations are in clear violation of the law and the legislative history.

The GAO concluded that the agencies are not enforcing their regulations. They are almost certainly unable to do so. The whole house of cards depends on self-reporting. That is, each exporter is supposed to report its export levels. The accuracy of the reports is not audited. The agencies depend on industry representatives to inform them of suspected violations. Once informed, they respond slowly, if at all. And when violations are found to have occurred, the penalties are insignificant.

One of the most glaring weaknesses in the whole system is the idea of "tributary areas." The regulations only limit direct substitution within an area that is near, or tributary, to a milling facility. The intent of the regulations is to allow companies with two separate operations - exporting private logs and milling federal logs - to do so only when distance and expense makes it impossible for the two activities to conflict. The GAO found that tributary areas are not specifically defined until a purchaser requests assistance or a complaint is received. The problem is best illustrated by an example from Oregon.

One company in my district declared that the tributary area for its mill was defined by an interstate highway down the middle of the Willamette Valley and proceeded to export from one side of the freeway and bid for federal timber on the other. Following a lengthy investigation of a competitor's complaint, the Forest Service found the practice illegal, but withdrew stiff penalties as insupportable in light of the vague regulations.

Where indisputable geographic separation exists between one company's activities, one can make an argument for continuing the concept of tributary areas. But the law should mandate that these areas be defined through a process which allows review by a company's competitors and members of the public, with regular adjustment for changes in price and practice.

INDIRECT SUBSTITUTION

Which brings me to the other form of substitution -- indirect, or third party, substitution.

Indirect substitution is entirely legal. It happens like this: I own a mill and some nearby timberlands. I'm exporting my private timber. But I'm barred from purchasing federal timber in the area because I'm exceeding my historic substitution levels or because I never had any in the first place. Of course, we're assuming that it's Forest Service timber at stake, because the BLM regulations are so easily circumvented.

Since I can't purchase Forest Service timber directly, I simply buy it from the XYZ Corporation, which has purchased it

legally. The GAO points out that the precise amount of indirect substitution taking place is not known. I should remind the committee that any estimates of substitution, whether direct or indirect, depend on very ill-defined and unrealistic tributary areas. In other words, substitution is only defined as substitution if it takes place within one of these tributary areas. Furthermore, since the agencies don't track the timber, they have no real way of knowing where it actually ends up.

CONCLUSION

Mr. Chairman, I don't mean to be hard on the Forest Service and BLM. The fact is, they are saddled with an impossible task. They have neither the personnel nor the legal power to effectively police their own regulations. Their people in the field tell me that they would rather just end substitution altogether. I agree.

Senator Packwood has introduced a bill, S. 754, to permanently enact the ban on federal log exports. I'll soon introduce similar legislation in the House. There are a number of provisions in the Senator's bill I would recommend to the committee's attention.

First, of course, in addition to permanently enacting the federal ban, the Senator's bill bans direct and indirect substitution. Senator Packwood also requires the agencies to write "new and coordinated" regulations. He establishes extensive reporting requirements for purchasers of federal timber and requires the agencies to annually report on the ultimate disposition of that timber. I want to really stress

the need for a tracking system such as the Senator proposes. Without it, any export ban is unenforceable.

The Senator's bill could be improved by defining unprocessed timber in such a way that minimally processed wood products, like cants, are included. Current law allows companies to circumvent the export ban by sawing a log to the minimum extent necessary to be considered processed and then shipping it overseas for final processing.

I'd also suggest stiffer penalties for violation of the ban. The huge amounts of money at stake are tempting for even the most scrupulous firms. And finally, in the future, tributary areas should be defined through a public comment process.

Mr. Chairman, that concludes my testimony.

Senator SARBANES. Congressman Miller.

STATEMENT OF JOHN MILLER, MEMBER U.S. HOUSE OF REPRESENTATIVES, FROM THE STATE OF OREGON, FOURTH DISTRICT

Representative MILLER. Senator, thank you for holding this hearing and inviting us all to testify. I'll submit some written testimony, but I want to be briefer in my oral remarks.

All of us from the Northwest are concerned that——

Senator SARBANES. We're very pleased to have you all here, but I think that we should also make it clear that people were very anxious to testify. So it's not just in response to invitations that we have. [Laughter.]

Senator SARBANES [continuing]. that we have this very extended witness list today. [Laughter.]

Representative MILLER. That is very true, Senator. And I think that reflects the concern that all of us in the Northwest have over this issue, including my colleagues, Congressman DeFazio from Oregon and Congressman Unsoeld from my State of Washington.

We all have differing perspectives. When you look at legislation to allow States to ban the export of logs from State-owned lands, I think we have to recognize that no matter how we dress it up and explain it, it is allowing the States to set up their own trade policies.

My research indicates that not since 1789 has the United States government allowed states to ban the export or the import of any item. This would indeed be a first.

The union came together in part because the States wanted to see one national trade policy, and the articles of confederation had produced chaos in this area.

Now, the consequences of allowing states to set trade policies, even if it is on one item from state-owned lands, I think has to be looked at very carefully.

The first consequence, of course, comes into play when the U.S. Trade Representatives negotiated GATT and other international forums. Foreign governments are going to look at our representatives and say, well, you represent one policy with regards to timber or lumber but, obviously, you cannot speak for the whole United States. This state has another policy, that State has still a different policy.

The second consequence, of course, is what happens down the road because I think we in Congress know that what we grant to one State or group of states we cannot refuse to other states. And if we grant to certain states the right to have a ban on the export of timber from state-owned lands, I think it's fair to say that it's only a matter of time before other States come to us with requests to ban the export or import of other items

And this is something that we as the protectors and initiators of federal trade policy have to think about. We worekd so hard the last couple of years. I know you have, on the bills like the Omnibus Trade Bill, the United States-Canada Free Trade Agreement, to try to set up national trade policies.

Now, if you go ahead, of coure, and if we go ahead and allow states to ban the export, then you get to the question of how salutary an effect will it be?

The purpose of a ban is very clear. By banning exports from the market, you drive down the price. That's the purpose, to get the price low enough so that domestic mills will be able to buy the logs. And the reason for this is this will save jobs in some domestic mills

There's no question about it. In our state, the estimates have been 1,500 jobs might be saved. Unfortunately, when you intervene to save jobs here, you lose jobs there. In this case, the estimates are that roughly 800 jobs would be lost in port-related activities that relate to exports.

And, in addition, in our state, a couple of thousand jobs may be lost in the school construction industry, because our School Construction Fund gets the revenue from the higher prices.

So, we help one group, but we hurt another group, which leads us I think as legislators to ask:

Isn't there a way to have a win/win solution? Isn't there a way to help everybody?

And I think there are some positive developments going on. Senator Gorton mentioned that our State Delegation, which Jolene Unsoeld and I are parts, have been working to try to develop a long-term process to try to come up with some constructive solutions.

In my State, the Washington State Legislature has a joint committee on timber issues that has been meeting. They recently in informal session have opted not to go down the ban log export approach, but instead to try to find positive, constructive solutions in the economic development tax incentive, job creation area.

And I think we want to see how those developments proceed.

And then, in addition, there is a petition filed by the domestic mills with the Department of Commerce that asks for a ban—a federal bay—a federal policy—banning log exports. That petition will be ruled on in the next couple of months. And while a ban could be criticized in terms of who it helps or hurts, if the Commerce Department went that road, at least it would be one federal policy.

So I think, at this point, it's premature for the Congress to go charging down the ban log export route when there are, hopefully, some other efforts underway that, in a constructive manner, without disrupting Federal trade policy and without pitting one group against another, may offer some results.

And I thank you, Senator, for allowing me to speak.

[The complete prepared statement of Representative Miller follows:]

STATEMENT OF CONGRESSMAN JOHN MILLER
BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY
NOVEMBER 8, 1989

THANK YOU FOR THE OPPORTUNITY TO TESTIFY TODAY AGAINST S.754 AND S.755.

MR. CHAIRMAN, I COME HERE NOT TO PRAISE S. 754 AND S. 755, BUT TO CRITICIZE THEM. TAKEN AS A WHOLE, THESE BILLS ARE BAD NATURAL RESOURCES POLICY AND BAD TRADE POLICY.

LIKE MY COLLEAGUES, I AM EXTREMELY SYMPATHETIC TOWARD THE SMALL COMMUNITIES IN WASHINGTON AND OREGON. THESE COMMUNITIES DEPEND ON A STABLE SUPPLY OF TIMBER TO SURVIVE. BUT, MR. CHAIRMAN, I THINK AN EXAMINATION OF HISTORY AND INTERNATIONAL ECONOMICS TELLS US THAT SIMPLE SHORT-TERM SOLUTIONS THAT ADDRESS LONG-TERM PROBLEMS HELP NO ONE. IN FACT, THEY END UP COSTING THE PEOPLE WE ARE TRYING TO HELP-- AND THE REST OF US-- A VERY HIGH PRICE.

THE CONSTITUTION WAS RATIFIED, IN PART, TO CREATE AN ECONOMIC UNION WHERE INDIVIDUAL STATES WOULD NOT HURT OTHER STATES BY TAKING SHORT TERM GAINS. TRADE AND COMMERCIAL POLICIES WERE GIVEN TO THE NATIONAL GOVERNMENT IN AN EFFORT TO HELP THE WHOLE NATION.

THE TRADE BILL WE ALL WORKED ON LAST YEAR WAS DESIGNED TO EXPAND TRADE AND IMPROVE OPPORTUNITIES FOR U.S. EXPORTERS. SIMILARLY, WE SUPPORTED THE U.S.-CANADA FREE TRADE AGREEMENT. BOTH THESE INITIATIVES EMPHASIZED A COORDINATED NATIONAL TRADE POLICY. S. 755 ALL BUT GUTS THE NOTION THAT WE WILL HAVE ONE TRADE POLICY. INSTEAD WE WILL HAVE SEPARATE TRADE POLICIES FOR WESTERN STATES. THEN, WITHOUT MUCH IMAGINATION, MR. CHAIRMAN, OTHER SPECIAL INTERESTS WILL PROPOSE THEY TOO NEED PROTECTIONS ONLY UNDERSTOOD BY STATE GOVERNMENTS. IN THE END, WE MAY MAKE SOME SPECIAL INTERESTS HAPPY IN THE SHORT-TERM, BUT ALL OF US WILL LOSE IN THE LONG-TERM, AS OUR NATIONAL POLICY DISSOLVES INTO 50 SEPARATE TRADE POLICIES.

MR. CHAIRMAN, YOU MIGHT THINK THAT WASHINGTON STATE'S SHARE OF EXPORTED PROCESSED LUMBER IS DECLINING. THAT IS NOT THE CASE. ACCORDING TO THE WASHINGTON STATE DEPARTMENT OF NATURAL RESOURCES IN 1979, FOR EXAMPLE, JUST UNDER 43 PER CENT OF OUR FOREST PRODUCTS EXPORTS WERE FINISHED PRODUCT, WHILE JUST OVER 53% WERE RAW LOGS. IN 1987, JUST OVER 57% WAS FINISHED PRODUCT AND RAW LOGS AMOUNTED TO JUST UNDER 44 PERCENT.

MR. CHAIRMAN, WE ALL RECOGNIZE THAT THERE ARE RURAL COMMUNITIES IN WASHINGTON AND OREGON FACING MASSIVE PROBLEMS BROUGHT ON BY HIGH DEMAND AND HIGH PRICES FOR LOGS. THAT IS WHY I WORKED WITH MY

COLLEAGUES TO SUPPORT THE TIMBER SUPPLY COMPROMISE CONTAINED IN THIS YEARS INTERIOR APPROPRIATIONS BILL. THAT IS WHY I AM STILL WORKING ON A LONG TERM SOLUTION. WE ALSO RECOGNIZE MARKET BARRIERS. THE RECENT SECTION 301 ACTION AGAINST JAPAN ILLUSTRATES SUCH A BARRIER. BUT, THIS WAS A COORDINATED NATIONAL POLICY, NOT A SEPARATE STATE POLICY.

EVENTS HAVE COME TO A HEAD THIS YEAR BECAUSE TIMBER IS ALWAYS A CYCLICAL BUSINESS, AND THE CYCLE HAS HIT ITS NEAR PEAK. PRICES AND DEMAND ARE BOTH HIGH. BUT WHEN THE CYCLE ENTERS ITS DOWNWARD SLIDE, EXPORTS REPRESENT AN IMPORTANT SOURCE OF INCOME FOR THESE SAME COMMUNITIES. THE INTERNATIONAL MARKET DOES NOT ALLOW US SIMPLY TO SELL LUMBER OR LOGS JUST TO MEET THE DOMESTIC MARKET. IN SEVERAL AGRICULTURAL COMMODITIES, ATTEMPTS TO AFFECT THE BUYING POLICIES OF IMPORTING NATIONS THROUGH EXPORT BANS HAVE NOT BEEN SUCCESSFUL. IT'S TOO HARD TO BUILD BUSINESS RELATIONS AND TOO EASY FOR FOREIGN SUPPLIERS TO FIND SUBSTITUTE PRODUCTS.

MR. CHAIRMAN, THE ISSUE FOR WASHINGTON STATE IS NOT AS SIMPLE AS SOME WANT YOU TO BELIEVE. AT THE PEAK OF THE DEMAND CYCLE, ACCORDING TO U.S. FOREST SERVICE DATA, A LOG BAN WOULD SAVE 1,580 DOMESTIC MILL JOBS. BUT, MR. CHAIRMAN, IT WOULD COST 880 JOBS IN THE EXPORT TRADES. MOREOVER, MR. CHAIRMAN, THIS NUMBER DOES NOT INCLUDE THE ESTIMATED 3,000 CONSTRUCTION JOBS-- BUILDING NEW CLASSROOMS AND UPGRADING SCHOOLS-- WHICH WOULD BE LOST BECAUSE A BAN ON EXPORTS WOULD SIGNIFICANTLY DEPRESS THE PRICE OF LOGS SOLD FROM STATE LANDS. THESE NUMBERS DO NOT INCLUDE JOB LOSSES IN OTHER INDUSTRIES INDIRECTLY LINKED TO FOREST PRODUCES. EACH RETAINED JOB WOULD COST THE WASHINGTON STATE SCHOOL CONSTRUCTION FUND APPROXIMATELY $100,000 PER YEAR.

FINALLY, MR. CHAIRMAN, A SHORT SUPPLY PETITION WAS RECENTLY FILED WITH THE DEPARTMENT OF COMMERCE BY A COALITION OF SMALL MILL OPERATORS. THESE SMALL MILLS ARE SEEKING A FIVE YEAR BAN ON LOG EXPORTS FROM PUBLIC LANDS. IF THE DEPARTMENT OF COMMERCE RULES IN THEIR FAVOR, S. 755 WILL NOT BE NECESSARY. SUCH AN ACTION WOULD BE PART OF OUR NATIONAL TRADE POLICY, NOT THE ACTION OF ONE STATE.

S. 755, IN SUMMARY, IS A FEEL GOOD SOLUTION, WHICH WORKS AGAINST OUR NATIONAL TRADE POLICY AND FAILS TO REALISTICALLY CONSIDER THE FORCES AT WORK IN THE INTERNATIONAL MARKET.

S. 754, HOWEVER, DOES HAVE SOME MODEST MERIT. IT DOES MAKE PERMANENT THE BAN ON EXPORTED LOGS FROM FEDERAL LANDS WEST OF THE 100TH MERIDIAN. THE DISTINCTION BETWEEN A FEDERAL BAN AND A STATE BAN IS IMPORTANT. OUR TRADE POLICY MUST HAVE ONE VOICE, THE FEDERAL GOVERNMENT. IF CONGRESS AND THE PRESIDENT CONCUR, WE HAVE A FEDERAL LAW. THIS IS A FAR CRY FROM INDIVIDUAL STATES MAKING SEPARATE AND COMPETING POLICIES.

BUT, S. 754, ALSO ADDRESSES THIRD PARTY SUBSTITUTION. AS A PRACTICAL MATTER, THE TOTAL AMOUNT OF FEDERAL TIMBER INVOLVED IN THIRD PARTY SUBSTITUTION IS NOT PRECISELY KNOWN. IN 1987 AND 1988, THE GENERAL ACCOUNTING OFFICE REPORTED, THE FOREST SERVICE ESTIMATED "107 MILLION BOARD FEET AND 114 MILLION BOARD FEET RESPECTIVELY." THE BUREAU OF LAND MANAGEMENT OFFICIALS IN OREGON HAD NO STATISTICS ON SUCH SUBSTITUTION, BUT BELIEVED IT WAS LIMITED. IN 1985, THE GENERAL ACCOUNTING OFFICE ESTIMATED THAT THIRD PARTY SUBSTITUTION AMOUNTED TO ONLY ABOUT 100 MILLION BOARD FEET OF TIMBER.

MR. CHAIRMAN, THE DRAFT RECOMMENDATIONS I REVIEWED FROM THE GENERAL ACCOUNTING OFFICE STUDY SUGGEST THAT WE NEED TO TAKE A LOOK AT LEGISLATIVELY DEFINING THE HISTORIC CUT LEVELS, THE PENALTIES FOR VIOLATING SUBSTITUTION RULES AND THE MONITORING OF DATA PROVIDED TO THE FOREST SERVICE AND THE BUREAU OF LAND MANAGEMENT. I SUGGEST THAT THIS INVESTIGATION, ALONG WITH THE G.A.O.'S 1985 STUDY, LEAD ME TO CONCLUDE THAT THE SCOPE OF THE PROBLEM IS OVER EMPHASIZED. LET'S FIX THESE PROBLEMS, LET'S NOT CANCEL A PROGRAM WHICH DOES NOT APPEAR TO BE A PROBLEM.

THE FACT IS, MR. CHAIRMAN, S.754 WOULD, I BELIEVE, HAVE SEVERAL ADVERSE LONG TERM IMPACTS ON EFFORTS TO ADDRESS THE TIMBER SUPPLY SITUATION AND WILL NOT EFFICIENTLY USE OUR TIMBER RESOURCES. UNDER S. 754, COMPANIES THAT HARVEST BOTH FEDERAL AND PRIVATE TIMBER WOULD HAVE TO CHOOSE BETWEEN FULL PARTICIPATION IN THE DOMESTIC MARKET OR CONTINUING TO PARTICIPATE IN THE EXPORT TRADE. A COMPANY WHICH DECIDES TO PARTICIPATE IN THE DOMESTIC TRADE MAY NOT BE ABLE TO USE ALL ITS LOGS DOMESTICALLY AND WOULD HAVE TO LET THEM GO TO WASTE BECAUSE AN EXPORT USE WOULD NO LONGER BE AVAILABLE.

SECOND, MR. CHAIRMAN, IF A COMPANY DECIDED THAT SHORT TERM PARTICIPATION IN THE EXPORT MARKET WAS MORE PROFITABLE, IT MAY BE FORCE A COMPANY TO CLOSE A MILL. WHILE THAT DECISION MAY MAKE ADDITIONAL FEDERAL TIMBER AVAILABLE TO ANOTHER MILL, IT WILL DO LITTLE FOR THE WORKERS AND FAMILIES OF THE MILL WHICH IS CLOSED.

MR. CHAIRMAN, ENDING SUBSTITUTION AND FORCING A COMPANY TO PARTICIPATE ONLY IN THE DOMESTIC MARKET SOUNDS GOOD, BUT WE ARE MAKING AN ASSUMPTION THAT THE SHORT TERM GAINS WILL NOT RESULT IN HIGHER HUMAN COSTS. I PERSONALLY DO NOT WANT TO MAKE SUCH A BET WITH THE LIVES OF PEOPLE.

SUBSTITUTION DOES PROVIDE A COMPANY WITH THE ABILITY TO EFFICIENTLY PROCESS DIFFERENT TYPES OF LOGS AVAILABLE. IT ALLOWS A COMPANY, AND HENCE, THE UNITED STATES, TO MOST EFFECTIVELY USE ITS FOREST RESOURCES TO PARTICIPATE IN THE INTERNATIONAL MARKET FOR WOOD AND WOOD PRODUCTS.

MR. CHAIRMAN, THE FOREST PRODUCTS INDUSTRY IS DYNAMIC AND

COMPLEX. IT IS AN IMPORTANT SECTOR OF MY STATE'S ECONOMY AND THE ECONOMY OF THE PACIFIC NORTHWEST. WE ARE ALL CONCERNED ABOUT THE PEOPLE WHOSE LIVES ARE AFFECTED BY THE TIMBER SUPPLY CRUNCH. BUT, LET'S NOT MAKE A FATAL ERROR BY CUTTING OFF IMPORTANT MARKETS FOR SHORT TERM FEEL GOOD SOLUTIONS, WHICH COST US MORE THAN THEY SAVE US.

Senator SARBANES. Thank you very much, Congressman Miller. Congresswoman Unsoeld.

STATEMENT OF JOLENE UNSOELD, MEMBER, U.S. HOUSE REPRESENTATIVES FROM THE STATE OF WASHINGTON, THIRD DISTRICT

Representative UNSOELD. Thank you very much, Mr. Chairman, and thank you for the opportunity to allow us to express our eagerness on the topic.

Senator SARBANES. It's our pleasure to have you here.

Representative UNSOELD. I represent Southwest Washington, one of the most timber-intensive areas in the country. I'm also known as something of an environmentalist. And from both an economic and environmental perspective, it grieves me to see what the unrestricted export of raw logs has done to the Northwest.

In the areas of forest products, the Northwest has been relegated virtually to the status of a colony, exporting low-value raw materials and importing high value finished product.

We're now, the United States is the only major exporter of high-quality softwood logs in the world. If my home State of Washington were a separate nation, we would be the second largest exporter of raw logs in the world. Log exports from Washington have grown from less than 10 percent of the timber harvest in 1964 to about 40 percent of the total today.

Canada, as has been mentioned, and a dozen other countries, have either banned or restricted this type of export without any loss to their export of finished products.

In fact, an increase.

Now, Mr. Chairman, with two exceptions, the annual ban on the export of Federal logs and the ban on unprocessed Western Red Cedar, we have allowed this destructive reverse colonization to continue unabated.

Although there's been a ban on the export of logs from Federal land since 1973 in the West, national forests in Washington contribute less than 20 percent of the total harvest. In Washington, two-thirds of the harvest from State lands is exported, and 80 percent of that is old growth.

Absent any Congressional authorization, the State is powerless to slow the export of logs from its own land.

All three of the elements of Senator Packwood's legislative package, I support: Authorizing the States to restrict export of logs from their own land, making permanent the ban on the export of Federal logs and the closing of the substitution loophole.

In anticipation of some of the criticisms that I've heard from my colleague from Washington, I am also offering legislation that will set a uniform Federal policy banning the export of the West's most precious resources—our old growth trees from our remaining ancient forests.

My legislation is patterned after the successful ban on the export of unprocessed Western Red Cedar from public lands, enacted by my predecessor, Representative Don Bonker.

My legislation would extend the ban of old growth logs to old growth logs over 24 inches in diameter. This is only one variation

on a theme that is to be offered by Northwest Members, which demonstrates our seriousness in dealing with the long-term timber supply issue.

Now, I also believe we must promote the export of finished wood products. For years, we've been behind Canada and we could greatly improve our trade imbalance with the Pacific Rim through such promotion—not trying to substitute one kind of job for another. But, we should get the greatest value from that resource before we export it.

Mr. Chairman, I would like to perhaps anticipate a couple of other questions or comments.

When the Trade Act was adopted by Congress, what was given with one hand was taken away with the other. And even though the Secretary of Commerce has before it a petition asking for a restriction on this exporting of raw resources, unless Congress were to act in 60 days, the administration is powerless to have a permanent correction to that situation.

Also, we have a precedent for this kind of action. We, the Northwest, are a resource-based economy. Timber and fish are our major resources. Now, a few years ago, the foreign fishing industry dominated the harvesting and processing of Northwest fish. Under the Magnuson Act, we Americanized the fishery. We now have a billion dollar industry, much of it in my colleague's District, and no one has said that wasn't a good trade policy.

Presentation by my Governor from the State of Washington will be presented in a later panel, but, I would like to point out that the Governors of Washington have traditionally opposed export restriction. Now this is a major departure from those past views, to say that we ought to be—to have a better control over that precious resource, our old growth logs.

I would very much urge this Committee to take a hard look at the protection of our old growth resources and our ability to be able to export finished products and keep those jobs at home.

Thank you, Mr. Chairman.

[The complete prepared statement of Representative Unsoeld follows:]

STATEMENT OF REP. JOLENE UNSOELD (WA)
IN SUPPORT OF LEGISLATION TO RESTRICT LOG EXPORTS
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
NOVEMBER 7, 1989

Mr. Chairman, I represent southwest Washington, one of the most timber-intensive areas in the country. I am also known as something of an environmentalist. From both an economic and environmental perspective, it grieves me to see what the unrestricted export of raw logs has done to the Northwest.

In the area of forest products, the Northwest has been relegated to the status of a colony -- exporting low value raw materials and importing high value finished products.

The U.S. is now the only major exporter of high quality softwood logs in the world. If my home state of Washington were a separate country, it would be the second largest exporter of raw logs in the world. Log exports from Washington grew from less than 10 percent of the timber harvest in 1964 to about 40 percent of the total.

We are virtually alone among timber producing nations in allowing our precious forest resources, and the processing jobs that go with them, to be exploited by others. Canada and a dozen other countries have either banned or greatly restricted log exports to conserve their timber for domestic processing.

With two exceptions -- the annual ban on the export of federal logs, and the ban on the export of unprocessed western red cedar -- we have allowed this destructive reverse colonialism to continue unabated.

Largely as a result of the booming log export trade, the Northwest is facing the most serious log shortage in its history. Dozens of mills are shutting down because they cannot outbid export brokers for scarce timber. And as our remaining unprotected old growth forests dwindle, it makes no sense to allow the unrestricted and unsustainable export of raw logs from our public forests.

Although there has been a ban on the export of logs from federal lands in the west since 1973, national forests in Washington contribute less than 20 percent of the total harvest. In Washington, two-thirds of the harvest from state lands is exported, and 80 percent of that is old growth. Absent congressional authorization, the state is powerless to slow the export of logs cut from its own lands.

Private landowners in Washington, who contribute over 60 percent of the timber harvest, find it difficult to resist the higher prices commanded by the export market. To make matters worse, the booming export market has spurred overcutting on private lands, creating a 'timber gap' that will reduce the timber supply for decades.

This leaves the small and independent sawmills, which lack their own timber lands, almost entirely dependent on the national forests. That is why the controversy over the spotted owl, which has greatly reduced the timber output of the Northwest's national forests, has so devastated the economies of many timber-based communities.

Mr. Chairman, we in the Northwest have the best forests and the most efficient mills in the world -- computerized mills ready, willing, and able to cut to metric dimensions or other specifications.

We are selling raw logs to Japan and other Pacific Rim trading partners instead of lumber, paper, and plywood, in large part, because there are barriers to free trade in finished products. For example, Japan has an escalating tariff structure for finished wood

products: the greater the value added to the wood product, the higher the tariff. There are also formidable non-tariff barriers, such as discriminatory building standards and a complex distribution system.

In the competition over the processing of our timber resource, we've been taken to the cleaners. Our competitors have been tougher, smarter, and more aggressive than we have been. It's time we established wiser resource and trade policies.

I support each of the elements of Senator Packwood's legislative package: authorizing states to restrict export of logs from their own lands; making permanent the ban on the export of federal logs; and the closing of the "substitution" loophole.

In addition, I am introducing legislation designed to set a uniform federal policy banning the export of the West's most precious timber resource -- old growth trees from our remaining "ancient" forests. My legislation is patterned after the successful ban on the export of unprocessed western red cedar from public lands enacted by my predecessor, Don Bonker. My bill would extend the ban to old growth logs over 24 inches in diameter.

Because of the high value of old growth timber, and because of its vital role in the ecology and heritage of the Northwest, it is essential that we conserve this timber and reserve harvested old growth for domestic processing.

I also believe we must promote the export of finished wood products. For years, we have been far behind Canada and other countries which have aggressively pursued markets for these high value products. We could greatly improve our trade imbalance with the Pacific Rim through such export promotion and by using our timber resource and domestic markets as leverage to win back the economic benefits of processing.

Mr. Chairman, I believe it is high time we took a tougher, smarter approach to trade and resource policy. There is no good reason why we should continue to be a virtual colony in the area of forest products. We need to enact these measures and make the best possible use of our precious timber resource.

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Senator SARBANES. Well, thank you very much. I have just a few questions.

First of all, just as a matter of curiosity, Congresswoman Unsoeld, you said that if the State of Washington were a separate country, it would be the second largest exporter of raw logs in the world?

Representative UNSOELD. Behind Malaysia.

Senator SARBANES. That's what I was going to ask. OK. I note there's always a tendency of the Pacific Coast States to envision themselves as separate countries when they give economic statistics. [Laughter.]

Representative UNSOELD. If you took Oregon and Washington together, we are the largest.

Senator SARBANES. The largest, yes. [Laughter.]

The Californians are always telling us they're the seventh biggest economy in the world, you know, if they were a separate country.

Representative UNSOELD. Everything's big in the West.

Senator SARBANES. Before the Supreme Court decision, did the State of Washington restrict the export of raw logs from State lands?

Representative MILLER. Mr. Chairman, the answer to that is no. There was an initiative many years ago in Washington State to do that. It was defeated.

Let me just, if I could, take the opportunity to add something to what Jolene said.

Log exports have risen from the State of Washington, but you also have to understand that the export of processed timber has also risen. And in the last decade, processed timber, which was under 50 percent of the total exports, is now over if you count wood products, chips, paper and pulp.

So we're a very export-oriented State both with respect to logs and with respect to processing finished products.

Representative UNSOELD. Mr. Chairman, the policy of the previous Governors has been to oppose a restriction. That is a major departure from that policy that is going to be presented by our Governor a little later.

I'd also like to submit for the record and also a copy for the Chairman a copy of a cartoon from a Northwest newspaper which points out that much of the controversy—and what has accelerated our awareness of the timber shortage—has been the difficulty with the spotted owl issue. And that it is the spotted owl that has diverted our attention from the real problem of timber shortage, the log exporting.

[Copy of illustration follows:]

"QUICK! LOOK OVER THERE! IT'S THAT DANG SPOTTED OWL THAT MADE ME CLOSE YOUR MILL!"

Representative DEFAZIO. Mr. Chairman, if I could just respond to the question.

The States of Alaska, Idaho, Oregon, and California all had laws on the books restricting the export of unprocessed logs at the time of the Supreme Court decision. Washington stood alone. They are also the home of the Weyerhaeuser Corporation, the largest single exporter of logs in the world as far as corporations go.

And, of course, for the Governor to take this position, since he is of the Weyerhaeuser family, is a dramatic step in Washington State.

Senator SARBANES. Congressman Miller, you at the outset said, at least as I heard it, that to allow the States to ban the import and exports of any item would represent sort of a major departure from the framework put forth at the time of the Constitution.

But, my understanding is that before this Supreme Court decision, in this area at least and what Congressman DeFazio just mentioned supports is, that, in fact, States were banning the export of raw logs off of State land.

The Packwood legislation doesn't represent a departure from a 200-year policy. It really represents an effort to address the impact of a Supreme Court decision.

That's not making any judgment on the substance. That's simply trying to set the historical record straight.

Would you differ with that observation?

Representative MILLER. Well, in this respect. I think you're correct, Senator, in saying that individual states had some bans for a short period of time before the Supreme Court decided this violated the Constitution and required Congress to take action to give that right.

My point was not to say that no state had ever made a ban, but the Federal Government, the Congress has never since 1789 ceded to the states authority to ban an export or an import.

So, in that sense, this would be a first.

I think I do want to associate myself with something Congresswoman Unsoeld said, if I could just take a minute.

And that is we are all concerned about the old growth issue. And I think everybody in the Northwest would want to preserve a good part of our old growth. The problem is that merely saying that the old growth shall not go for export, but shall go to domestic mills, does not save the old growth.

I'm afraid, if we're going to save the old growth, we're going to have to do something other than just say we're going to ban log exports.

Senator SARBANES. Congressman DeFazio, do you know, or do any of you know whether these bans that you referred to have been for short periods of time? Or have they been for some substantial duration?

Representative DEFAZIO. The State bans that were in effect?

Senator SARBANES. Yes.

Representative DEFAZIO. The laws generally are up to 20 years old, so the Supreme Court decision intervening. Some, I think the longest was perhaps on the books for some eight years before the Supreme Court decision.

If I could, Senator, there is another precedent.

Senator SARBANES. Relatively recent phenomena.

Representative DEFAZIO. Yes.

There is another precedent, however, in the issue of taxation. States have chosen to impose so-called unitary taxes. That is, taxes upon, you know, either domestic or foreign corporations attributing the percentage of their offer. I'm sure you're familiar with the concept.

That has been challenged constitutionally saying that that was again State-setting trade policy because they were choosing to tax a foreign corporation doing business in their State differentially from the way they tax domestic corporations.

That has been upheld by the Supreme Court.

So there are other instances where we have, in fact, allowed States authority that does impact foreign nations differentially. And, you know, in this case, it's also consistent with GATT in terms of the short supply provisions and the conservation provisions of GATT.

Senator SARBANES. Yes, well, historically, as a constitutional evolution, I don't think it's been usually necessary to delegate the authority to the States. The States have exercised the authority. And it raises an issue, it then is challenged as being contrary to a national commerce policy and struck down by the courts.

So that there's not a burden on the Federal Government in the first instance to see the authority because the States have operated in an absence of any Federal policy.

Congressman Williams, we're very pleased you've been able to join us, and we'd be very happy to hear from you at this time.

Representative WILLIAMS. You're very kind, Senator. I appreciate your understanding.

Senator SARBANES. Well, we understand the pressures on your time and we're happy to have you here.

Representative WILLIAMS. Thank you.

STATEMENT OF PAT WILLIAMS, MEMBER, U.S. HOUSE OF REPRESENTATIVES FROM THE STATE OF MONTANA, THIRD DISTRICT

Representative WILLIAMS. I introduced the first legislation dealing with this issue in the Senate. And it is similar, if not identical, to legislation which Senator Packwood introduced later here in this body.

Let me bring an issue to your attention and to the public's attention which I don't believe has been adequately discussed or considered as a ramification of this whole problem.

I represent the western half of Montana. That's the mountainous, forested half of that State. The matter which I want to bring to your attention is one of substitution.

The primary way that the Federal law and regulations now prevent substituting privately owned timber for Federal timber and exporting the privately owned timber is this.

Federal law and regulation says that if a company owns its own timber in a given drainage, it is then not allowed to bid on adjacent timber, Federal timber, in that same drainage.

That's to prevent a mixing of the logs and, therefore, easily substituted raw logs that are going overseas.

Well, I maintain that the problem is way beyond drainages. It's a national problem. The substitution isn't going on within drainages, Senator. It's going on within timber companies. Here's how:

Recently, a major timber company in the United States was split off, sold. It sold under a limited partnership, although it has public stock. It has taken on, as have many other companies to prevent their being bought out, it has taken on enormous debt. It now needs to finance that debt.

I maintain this is one of the ways it does it. It sells to the Orient raw logs off of its private holdings at enormous prices. Those prices are sky-high. It then moves East, primarily into Montana, buys up and harvests everything it can in the forests in Montana on Federal land.

Now, is it violating the drainage restriction? No. No, it's treating the West as one drainage in order to pay for its enormous debt that it's recently incurred.

What's that doing to Montana? Two things.

It's putting small timber companies out of business because they cannot compete with the low bids of the giant timber companies of the West Coast, and it is creating a situation where these giant timber companies are constructing new mills with enormous capacity, mechanized mills with enormous capacity.

That then means that the forests of Montana, some of the last great, pristine, uneroded areas left in the Continental United States, are being—and this is Federal forests—are being rushed through these newly mechanized mills.

That's the Federal timber. The private timber that was cut on the West Coast in the District of many of my colleagues is being sent to the Orient.

The Federal timber is being cut in enormous amounts in places like Montana.

Is there any export of timber in Montana to the Orient? No.

No, we're not suffering directly because of exporting of timber from Montana. We're suffering indirectly. They are using us as a State to substitute the fact that they are sending so much private timber overseas in order to pay for this enormous debt that they've incurred, in order to protect somebody from buying them out. So this problem has significant financial, technical ramifications, and the people that are suffering those ramifications are the workers that worked for small timber companies in places like Montana, small companies that cannot compete with the giants.

And the other ramification is that some of the last great pristine areas in this country are being clear-cut right in front of our eyes.

Thank you.

Senator SARBANES. Thank you very much.

What do you understand was the rationale of the drainage area concept originally?

Representative WILLIAMS. Simply to prevent mix—to put it in its simplest terms, Senator, the Federal Government was concerned that it might create a—that a situation might be created whereby you couldn't identify a Federal log from a private log. And the Federal Government was saying, Let's not allow the cutting of both private and Federal logs by the same company in the same drainage.

In other words: Let's not get those logs on the same truck because it's going to be increasing difficult to identify which is private and can be exported and which is Federal and can't be exported.

Senator SARBANES. But, couldn't it have been circumvented from the very beginning on the basis on which it's now taking place, at least as you see it?

Representative WILLIAMS. Yes, I think it could have.

Representative DEFAZIO. Senator, if I could just on that issue, and it also goes to the issue you asked me earlier about the duration of these laws.

Log exports at the time of the first restrictions were a minimal problem. In 1962, they were only 2.3 percent of the harvest. Now they are 25 percent of a comparable total harvest in the Northwest region.

So the fact is that back then, the Senate and the House saw this as a real problem, even though it was a very small problem in comparison at the time. Its magnitude is greater now, which is causing more abuse in areas such as tributary area substitutions, third party substitutions, second party substitutions.

Senator SARBANES. I have one final question to put to any member of the panel who wants to respond to it.

How would the banning of the cutting of timber on State lands for raw log exports save or protect pristine areas or old forests?

Representative UNSOELD. Mr. Chairman, I——

Senator SARBANES. What would prevent those areas from being nevertheless cut for purposes other than the export of raw logs overseas?

Representative UNSOELD. I appreciate that question because it allows me to correct what I believe was an inadvertent impression that may be left from one of my colleagues.

The Northwest delegation is going to have to present to the Congress a whole package of legislation dealing with timber supply and environmental protection. This issue is only one of the issues in controversy that is going to have to be addressed.

How much is set aside—and where that is—will be part of another discussion. My proposal on restricting old growth—and generally these proposals are to restrict the exporting of raw logs—is aimed at whatever level of old growth remains to be cut.

How do we get the most value from it? How do we get the most jobs from it before we export it?

And that other issue of how we save the old growth is not a part of this immediate piece, but is part of the total package that has to come out of the Northwest for a long-term solution.

Senator SARBANES. Does anyone else want to comment?

Representative DEFAZIO. Well, Senator, I think there's two points we made there. I'd say we're not only saving and relieving some of the pressure on the Federal lands by allowing the States to restrict the export of their logs, but also we're saving the future of the industry.

And I don't want to just say that—Ms. Unsoeld makes a good point, but the fact is they have been taking the giants for years, and they've been taking them at a premium price.

But as a person in my District said now as they observed the log truck rolling toward the dock with very small diameter logs on it, he said:

"Look, now they're taking the babies."

They're taking the next generation of trees now into export at an unprecedented rate, trees that we estimated would come on line, would—we've always said private lands are going to be down, Federal lands will go up. Then, as Federal harvest comes down, the private lands will come up again.

We basically worked out a commingling or intermingling over time of these two resources, so we can have a sustained harvest. They can't stand alone—State, private or Federal lands—and meet the needs of this nation.

And what we're doing now is we're cutting off those private logs, that they aren't going to be there as the Federal harvest goes down, as has been anticipated for many years.

So it relieves both current pressure to allow the States to restrict the export of logs off of State lands on the Federal resources. It's also going to preserve some of the future for this industry in the Northwest.

Senator SARBANES. I don't quite follow that.

Suppose you took the view that nations which restrict the importation of finished wood products ought not to have unlimited importation of raw logs, if there's obviously an economic issue there, a whole value added issue.

In other words you want to treat it as a developing country. It's exporting a raw product rather than a finished product and losing all the value-added that it could, particularly in situations in which it's exporting the raw product to nations which have limited the export of the finished product.

So, if you shift the demand into demand for the export of finished products, which addresses an economic question, of value of jobs question, a value-added question, I don't see that that would affect the demand for the raw product to begin with.

It will still be demanded, not for export purposes, but to be used in the manufacturing process in order eventually to export a finished product.

Now, that's better from an economic point of view, obviously. But it still leaves the pressure on the basic natural resource, does it not?

Representative WILLIAMS. I don't think there's any question, Senator, but that one can only surmise the effect on demand.

Senator SARBANES. Right.

Representative WILLIAMS. That's a given. So we really are here talking about an economic situation, particularly with regard to employment.

Are we going to put more mill workers in those mills or not? If we're going to send raw logs overseas and allow that to happen, the answer is no, America is not going to try to create more jobs in the mills. And if we do it the other way, the answer is yes, America is going to allow States and through its own action is going to create law and regulation that does create jobs for mill workers in the United States.

Are we going to affect demand? Well, we can't tell exactly except there do seem to be practices overseas of countries hoarding raw logs.

I make a joke with tongue in check—and maybe it's not a joke—that these countries are waiting until the price goes up. They'll sell these raw logs back to us some day. [Laughter.]

Representative UNSOELD. Mr. Chairman, another part of that, this is one piece. The total package that we must put together before that 10-month band aid, the Adams amendment in Appropriations, before that is exhausted, or falls off—part of our total package has got to be to determine at what level the timber industry should be healthy and how to carry that into the future.

And part of that will include how do we entice, how do we provide the incentives so that independent wood lot owners will make that kind of long-term investment to increase the supply also, and take some of the pressure off of some of the other areas.

Senator SARBANES. That's an interesting point, yes.

Representative MILLER. Mr. Chairman, just as the out- numbered panelist here, I'm getting in one last word. I think your question speaks for itself. Banning an export or increasing export by itself does not save old growth. And I think that those mills that have been pushing for the ban have been very straightforward in saying "We don't want to exclude exporters from the market and lower the price just to save the trees, we want these trees for our mills."

So the old growth issue I think has to be addressed, but it is not addressed by favoring exporters over domestic manufacturers or vice-versa.

I do think you made an interesting point when you talked about foreign barriers, and that leads into some of the remedies that are available under section 301 of the Trade Act, and some other proceedings, as to whether the Federal Government in a coordinated fashion can try to lift some of these barriers to further increase the growth of our lumber exports.

And I think that is something that definitely should be pursued with—I believe you have administration witnesses who are going to testify.

Senator SARBANES. Of course, one of the quickest ways to do it may be to limit access to raw logs as far as the country is concerned.

Representative MILLER. Well, that's exactly why you have to approach it on a federal basis because you are looking at what the other countries will do, which countries have barriers. You see, here we're talking about a blanket ban, by a state.

If you do it in the fashion you're suggesting, at least you have a federal approach. You can differentiate between countries. You can measure whether the other country is going to retaliate against other industries. You can take a lot of factors into account.

Senator SARBANES. Well, now would you allow State limitations, limitations on the export of logs from State lands, if it was consistent with an established Federal policy?

Representative MILLER. I think that is something that can be explored. That at least, as I said before, there are pros and cons when you limit the exports on the merits. But that at least gets you to

some sort of coordinated federal policy that would make—I don't know whether it would make sense in terms of our economy.

That's another question. But it would make sense in terms of a coordinated Federal trade policy as opposed to each State going its own way.

Representative UNSOELD. John, I'll let you co-sponsor mine because it's a Federal policy.

Senator SARBANES. Well, we thank our colleagues

Representative MILLER. Thank you.

Senator SARBANES. We are now going to try something a little unusual. We have 9 witnesses and I'm going to put you all at the table at the same time. It was suggested that we should break it into two panels, pro and con, but that strikes me as a little bit like two ships passing in the night.

So we're going to ask all nine of the witnesses who are now scheduled to come to the table to take a few minutes each to present a statement, and then we'll address questions. And we'll take a short 2 or 3 minute recess while we organize this panel.

[Three minute recess.]

Senator SARBANES. The Committee will come back to order.

Gentlemen, we've been giving each speaker about 5 minutes to present or summarize their remarks. And we'll follow that process with this panel.

I might intervene from time to time as we move along with questions rather than simply waiting until the end to put any questions, whatever.

In my own mind, I've tried to do some grouping here. I hope to move the thing back and forth, so we're not going to simply take all the pro people in a row and all the con people in a row, or vice-versa.

And I know the use of the terms pro and con is probably an oversimplification. I understand we're going to get some complicated and sophisticated statements of positions here.

Mr. Hayward, I think we'll start with you. You're the executive vice president of North West Timber Association in Eugene, OR.

And then we'll follow with Douglas Caffall, president of the Caffall Bros., Forest Products, Inc. of Wilsonville, OR.

And I take it that you're representing the Pacific Rim Trade Association, or at least some parts thereof, as Senator Packwood indicated, and the Washington Citizens for World Trade.

So, Mr. Hayward, why don't you go ahead?

STATEMENT OF R. DENNIS HAYWARD, EXECUTIVE VICE PRESIDENT, NORTH WEST TIMBER ASSOCIATION, EUGENE, OR

Mr. HAYWARD. Thank you, Mr. Chairman. My name is Dennis Hayward. I'm executive vice president of Northwest Timber Association, headquartered in Eugene, OR.

I'm pleased to be here today to support these bills. These are supported not only from our organization, but I'm here on behalf of a coalition of over 160 timber-dependent mills, representing an estimated two-thirds of the productive capacity of the industry in Washington and Oregon.

We are highly competitive mills. When we have had an increase of 120 percent in our raw material price in the last four years with only 25 percent increase in finished product prices, we are the competitive industry.

We deal with many issues, primarily focused at public timber supply, of which log exports is an integral part.

As you've heard from our Governor and Senator Packwood, this is an issue that is strongly supported. Passage of these bills is supported by the public and by the environmental community.

The bottom line is that we believe that the export of a basic raw material is detrimental to the long-term well-being of all Northwest citizens, indeed, all of America.

If another log was never exported, if every ship was filled with finished products, our country, our communities, our industry, our workers, our country would all be better off.

We urge passage of this legislation so that the States will have the right to determine the future of their own timber, so that we can make permanent the ban on the export of Federal timber, and so that we can eliminate the practices of direct and indirect substitution.

We believe the legislation will help the agencies in dealing with the tremendous timber crisis, in meeting America's needs and in meeting needs for community stability.

We believe it will promote conservation and wise use of our highly-valued old growth timber resource and, in doing so, preserve jobs and economic opportunity.

We believe it will encourage our foreign trading partners to increase their purchase of value-added products with the positive effects on balance of trade and increased free market exchange.

And it will place State governments in a position of equity. As you know, our economy is built on timber in the Northwest. We produce over a third of all the lumber and plywood for this country.

Over the last quarter of a century, we have seen log exports go from less than 2 percent of our harvest to the point now where 25 percent, one in every four logs, is exported.

On the State bill, we are very basic people and we think we know right from wrong. In the Northwest, private land owners can say I won't sell my logs to exporters. The Federal Government has said "We're not going to allow the export of our logs."

Why is it right then for Congress to tell the State, the people that own the timber, that they cannot ban log exports and that they cannot require domestic processing for the benefit of the communities and the industry?

On the Federal bill, our position for 20 years has been that we think the policy should be to require domestic processing of all Federal timber, in the lower 48 States, west of the 100th Meridian, as we now have, unless it's declared surplus to domestic needs, and that we should move to forbid substitution practices which encourage or allow the export of other timber.

We have high-quality timber in the Northwest. No where else in the world can supply those products. We need to conserve and get the maximum recovery out of the resource.

In deliberating this issue, I just ask that you go back to one very basic question and ask:

Is the export of our most basic raw material, public timber, good for America? Does it make America more prosperous or a better place to live?

We don't think so. And we think this legislation is important to pass on that concept.

[The complete prepared statement of R. Dennis Hayward follows:]

TESTIMONY OF

R. DENNIS HAYWARD

EXECUTIVE VICE PRESIDENT

NORTH WEST TIMBER ASSOCIATION

BEFORE

THE INTERNATIONAL FINANCE SUBCOMMITTEE

OF THE

SENATE BANKING COMMITTEE

TUESDAY NOVEMBER 7, 1989

My name is Dennis Hayward. I am Executive Vice President of North West Timber Association, headquartered in Eugene, Oregon. It is indeed a pleasure to be here today to speak in support of Senate Bills 754 and 755. I bring a message of support from not only my organization, but from a coalition of over 160 public timber dependent firms which represent an estimated two thirds of the solid wood manufacturers in Washington and Oregon. These firms range from the very smallest of specialty firms employing just a few people, to the family owned operations supporting rural communities, and the large corporations with multiple highly integrated plants employing thousands.

Our 22 year old association illustrates the support for these bills. Our members are small family owned lumber and plywood firms in western Oregon, which are almost totally dependent upon public timber for their existence. These are mills which were built, and will survive or fail, based upon fulfillment of the promise of a secure supply of public timber. Such firms are, often as not, the central base for the economy of an entire rural community. Often second or third generation family companies, their motivation for long term profitable survival comes more from a concern for their employees and their towns than for a search for personal wealth.

While our organization deals with a variety of issues, the primary focus is on maintaining adequate timber supplies from public lands. With the federal government controlling nearly fifty percent of the timber land and two-thirds of the timber supply in Oregon, our future is not a matter of free market economics, but is indeed a function of government decisions and regulations. A variety of

environmental, congressional, administrative, and economic factors are placing increasing pressure on how much of our abundant public timber resources are made available for harvest and manufacture. One of the elements of the complex timber supply issue is the laws and policies related to log exports.

It is not just the timber industry, its employees, and its communities which favor a ban on the export of public timber. It is the northwest public at large. In Oregon over 90% of the voters voiced their opposition to log exports last June in a special election to amend the State Constitution to "ban sale for export of unprocessed logs from state lands," and also called for an export ban on logs from the federal lands in the state. In the state of Washington, the historical public acceptance of the export of raw logs, including state owned timber, appears on the wain. Washington Land Commissioner, Brian Boyle (historically a strong advocate for log exports) recently challenged the Japanese to reverse their ratio of 70 percent log imports and 30 percent finished product imports, indicating the current ratio is "politically volatile and can't continue." The commissioner also noted that, "There is considerable support in our state [Washington] for a ban on exports from state-owned lands." (Seattle Post Intelligencer 10/13/89) Under the classification of "strange bed fellows," support for this legislation also comes from the environmental and preservationist special interest groups. While our objectives for supporting these bills are very different, we are in agreement, for once, on the need for the law.

The industry in the northwest has a long history of opposition to the export of public timber and to substitution practices - an opposition which is only magnified in today's environment of tight timber supplies. Where exports were once viewed as having an adverse impact on our levels of production, or the price of our raw material, they are today an important ingredient in the crisis which threatens our very existence - and the existence of our communities.

We believe that the export of a raw material is detrimental to the long term well being of all northwest citizens, indeed all Americans. If another log was never exported, if every ship was filled with finished products - our country, our communities, our labor force, our ports, our industry would be better off. While encouraging an end to the export of privately owned timber is a long term goal that will require time consuming dissolution of unfair international trade practices, the matter of public timber is an issue that can be appropriately dealt with now. We urge the passage of the proposed legislation to allow states to determine the future of their own timber; to make permanent the prohibition on the export of federal logs; and to eliminate the practice of direct, or indirect, substitution of public timber.

We believe that your support for S754 and S755 is warranted on several points:

1. It will help promote the ability of the Federal timber managing agencies to fulfill their responsibility to meet American wood needs in the light of increasing environmental pressures.

2. It will promote conservation of the highly valued old growth timber resource, while preserving employment and economic opportunity.

3. It will encourage our foreign trading partners to increase their purchase of value added products, with a positive effect on the balance of trade and increased free market exchange.

4. It will place state governments in a position of equity with the federal government in terms of determining the best use for timber that they own.

UNDERSTANDING THE NORTHWEST TIMBER ISSUES

In order to understand the importance of the proposed legislation, one needs to understand a few facts about the structure of the northwest industry, the region's timber resource, its importance in the national economy and the environmental wars now focused in the region.

INDUSTRY STRUCTURE

The forest products industry in the northwest can generally be viewed as two distinct elements. The first is the large private corporations who control vast timberlands, operating highly integrated facilities, and also exporting significant volumes of timber. The second element consists of firms which own smaller amounts, or no timberland at all, and are dependent upon the vast federal and state timberlands for their raw material supply, and are not involved in raw log export. While there is, of course, overlap, the two elements are often

geographically separated. For example, in southern Oregon there is relatively little private timberland and almost all segments of the industry are dependent to significant degrees on public timber; whereas in northwest Oregon and southwest Washington, private land owners dominate supply.

THE TIMBER RESOURCE

The Pacific Northwest contains some of the most productive forest lands in the world. Soils and climate combine with nature to grow the best structural softwood lumber in the world. Our growth rates and quality exceed those of both Canada and the Soviet Union. Each year 12 to 15 billion board feet of timber is harvested from the region, followed by prompt reforestation and management. There are two distinct management styles on the region's forest lands.

Private lands are generally managed as "Tree Farms" with timber production as the primary management objective. Managed for over 100 years, most of the virgin timber has been removed with second and sometimes third forests now growing. Private lands account for about 22.7 million acres of the region's forests and produce about half the annual harvest (7.7 billion board feet).

Federal and state forest lands cover about 25.6 million acres in the region and are managed for a multitude of outputs including water quality, fisheries, recreation, wildlife, and esthetics, as well as timber. Federal and state lands contain the bulk of the inventory of mature and old growth timber in the region. Over 4.5 million

acres of the northwest's national forests are set aside in Wilderness areas (no development or timber harvesting allowed), including 2.3 million acres of productive forest lands. Under the mandates of sustained yield, even flow, and multiple use management, less than half the federal forest lands (Forest Service and BLM) are dedicated to timber, and produce timber significantly below their growth potential. State and federal lands represent 52 percent of the timber base in the northwest, and currently produce about half the timber supply (7.7 billion board feet in 1988).

THE TIMBER ECONOMY

The northwest's economy was built upon and continues to depend upon the timber resource. It is the largest industry in Oregon, representing about 40 percent of the state's gross product, and in Washington it is second only to aerospace. One in every five manufacturing jobs in the northwest is in the timber industry. It is the number one industry in the two states, employing about 130,000 people directly, with a payroll approaching three billion dollars. Corporate taxes, harvest taxes, income taxes, and payments for public timber are essential to maintaining the infrastructure, education, and government services in the region.

IMPORTANCE TO THE NATION

Washington and Oregon combined produce almost one third of the nation's lumber and plywood. In recent years of record national and international demand the two states have produced 34% of the nations softwood lumber output, and 37% of its

softwood plywood output. The region also supports a major pulp and paper industry based mostly upon utilizing the waste material from solid wood production.

The federal lands of the northwest are also highly profitable for the American tax payer. In 1988 the Forest Service and BLM timber programs in the northwest produced revenues to the local and federal government of $1.1 billion against a management cost of $565 million.

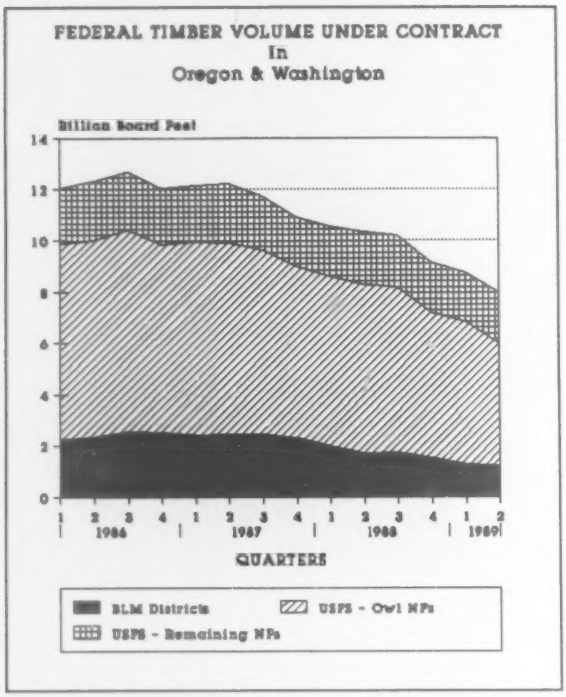
THE TIMBER SUPPLY CRISIS

The northwest is currently in the midst of a critical timber supply crisis. The conflict is centered around the debate over the management of the public lands, especially those managed by the federal agencies. While battles are fought over surrogate issues like habitat for the northern spotted owl, protection of "ecologically significant old growth" and development of new forest management plans - the real issue is a debate between how much of the public land will be managed for timber and how much will be preserved. Despite numerous wilderness bills and management plans that have removed over half the national forests from the timber base, the battle continues. Of the region's 7.5 million acres of mature and old growth virgin forest, some 4.2 million acres have been set aside in National Parks, Wilderness Areas, or other non-timber land allocations. The remaining 3.3 million acres is scheduled to be developed over the next half century and would provide the bulk of the public timber supply until the second growth forests, planted in the middle of this century, mature.

National and local preservationist organizations have launched a very effective attack against harvesting on these lands. Through appeals and court actions based on procedural issues under the National Environmental Planning Act, the National Forest Management Act, and a host of other laws, they have been able to cripple much of the timber program in the region. Less than half of the congressionally approved timber program for FY 1989 was sold. A temporary truce was achieved in the FY 1990 Interior Appropriations Bill, which allows a restricted timber program while protecting the old growth resource.

As a result of the record demand for wood products and a constrained timber supply, the volume of timber under contract on federal lands has reached an all time low (See Figure I). This represents just slightly over a year's volume under contract, where two to two and one half years is considered normal for efficient development and operation. This shortage is not evenly spread. Some firms may have as much as two years volume under contract, while other firms have only a few weeks or none at all. This is causing mill closures and lay offs, and the situation is expected to worsen. Of my 19 members, one has gone out of business completely, laying off 300 workers, five have reduced operations, and most others have announced their intent to reduce operations.

Figure I



The supply crisis has pushed prices to record levels. Between 1984 and the first quarter of 1989, the average price for timber sold from federal lands in the northwest increased by 120 percent. During the same period the value of finished product (Composite Lumber Price Index) only increased by 25 percent. While increases in product recovery and improved technology have helped, the squeeze is clearly threatening domestic industry. After a delay of several months due to

environmental appeals and court actions, the Mount Hood National Forest sold its first regular sale last month. Eight companies bid on the 1.5 million board foot sale which had an appraised price of $409,000. The successful bidder ended up paying $687,000 or $527 per thousand board feet, nearly double the appraised value. Unquestionably firms are bidding beyond break even values simply on the hope of surviving.

MILL CLOSURES

Since the recession of the early eighties, there have been significant mill closures in the northwest. These cannot all be blamed on the public timber supply crisis, any more than they can be blamed on log exports. Many factors come into play. Private lands, for the most part, are approaching an end to the initial harvest of their natural mature and old growth stands. Replanted and growing, these stands will not begin to mature for another 10 to 20 years, when an upsurge in timber harvest on private lands has been projected. However, in light of the record demand and markets of the last four years, the high level of closures can only be attributed to a supply shortage. Since 1984 seventy-nine lumber and plywood mills have closed, eliminating over 7,000 jobs. Fortunately much of this production has been made up by increased production in other facilities with total industry employment has remaining stable until recent layoffs and closures.

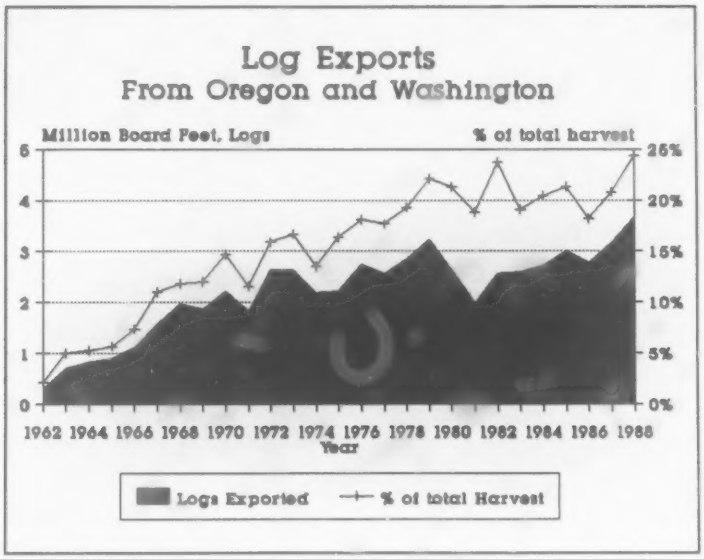
Before I proceed with a fuller discussion of the export issues, I would like to emphasize, for the record, that stopping exports will be helpful, but it will not

solve the timber supply crisis that faces the region's independent mills. While over three billion board feet of timber is exported from the northwest, only a small percent (0.5%) is federal logs. Over half of the timber processed in the northwest is from federal lands, and unavailable for export. The issues which are causing the supply crisis - forest planning, appeals, law suits, spotted owls, appropriations - are the issues which must also be resolved in a timely basis, if our backbone industry is to survive.

LOG EXPORTS

The concern over log exports has not gone unnoticed as the timber supply crisis has grown. Over the last quarter century northwest log exports have grown ten fold, from 311 million board feet and 2.3 percent of the harvest in 1962, to 3.68 billion and a record 24.5 percent of the harvest in 1988 (see figure II). One out of every four trees harvested is now being exported. This is enough volume to support 75 medium sized mills, provide over 30,000 jobs, and produce enough wood to build over 330,000 new homes each year.

Figure II



To the public, which does not recognize the difference between public and private rights, the preservationists point to the record log exports and ask why must we continue to harvest public lands to save jobs?

To mills shut off from purchasing public timber by the preservationist law suits and facing closure of their facilities, the inability to outbid the exporters for state timber is frustrating beyond reason. It is even more frustrating in Oregon where the owners of the timber, the people of the state, have stated loudly that they do not want the timber exported, yet the federal government allows exporting to

continue. Existing law prohibits export, but the requirement has been found unconstitutional. Typical of the situation was the auction of three timber sales (Haight Creek, Brush Creek and Mount Hogan) by the State of Oregon in Lane County on October 22, 1987. The sales contained 6.7 million board feet with an advertised value of $773,000 or $116.18 per thousand board feet. A number of local firms seeking wood for their mills aggressively bid each sale to nearly $200 per MBF, the break-even point on the domestic market, after which the exporters continued to bid. When the dust cleared, the sales had been bid to an average of $292.76 per MBF, some 2.5 times the advertized value. The bid forms on these sales contained the following statement: "Sale contains Board of Forestry timber which may not be exported..." Despite this clause there is no doubt that this wood went directly to the ports and was exported in raw log form. Incidentally, all three sales were purchased by a large private land owning company, which also exported its own timber, while operating a major sawmill complex utilizing government timber through third party substitution and timber purchased from the Bureau of Land Management due to a loophole in its export regulations.

THE LEGISLATION

I would now like to turn your attention to some of the specific reasons why this committee should, in our view, support Senator Packwood's legislation.

S755 STATE LOG EXPORTS

Let me begin with the simpler of the two bills, S755 which would give the states the right to control the export of its own natural resource, timber. We in the west are a rather basic type of people. We don't profess to understand what goes on "inside the beltway" - I've been coming to the capital on and off for 15 years and I still don't even know where the beltway is - but we do understand a matter of right and wrong when we see it. Private land owners can refuse to sell their timber to exporters if they so choose. The federal government has chosen to prohibit the export of its timber. A perfectly legal thing to do. What then is "right" about the Congress telling the people of a state, the people who own the timber, that they cannot require their timber to be processed at home, in their own mills, by their own workers, for the maximum benefit of their own people. Let the people decide - it's kind of like a democracy. The people of Idaho, California, and Oregon, either through direct vote or through their legislature, have said they don't want their timber exported. Thus far, the state legislature in Washington has only provided for restriction on the sale of county timber. As I indicated earlier, public sentiment in Washington is moving toward support of domestic processing and the banning of public timber log export. Weyerhaeuser, leader of the powerful pro export lobby, owns something like three million acres of the most productive forest land in the northwest. It seems like they ought to be able to show a good return on that asset without having to be involved in the export of state-owned old growth timber.

S754 - BAN ON FEDERAL LOG EXPORTS

The concept that the best use of federal timber is domestic use has a long history in Congress. As a rider to the 1897 Appropriations Bill, the 1897 Organic Administration Act provided authority to the Secretary of Interior to sell timber from the public lands provided that such timber was "...to be used in the State or Territory in which such timber reservation may be situated, respectively, but not for export therefrom." (emphasis added)

Beginning in 1974, and each year since, Congress has dealt with log exports from federal lands with language in the annual interior appropriations bill. This language forbids the Secretaries of Interior and Agriculture from selling any "unprocessed timber from federal lands west of the 100th meridian in the contiguous 48 states, or which shall be used as a substitute for timber from private lands which is exported by the purchaser." (emphasis added) My organization has been a strong supporter of this annual language in general, but has objected to the loopholes that exist in the substitution provisions. With the timber supply crisis in the northwest, we believe it is time to make the law permanent and to eliminate the inequitable loopholes. We believe it should be the policy of the United States to require the domestic processing of all federal timber in the lower 48 states and west of the 100 meridian unless declared surplus to domestic needs, and to forbid substitution practices which encourage or allow the export of other timber.

Making the ban on the export of federal timber permanent is good for our country. A developing country in need of quick cash, and short on technology, exports its raw materials. We are neither, I hope. The timber in the northwest is of the highest quality in the world. The products that come from our fine grained old growth cannot be replaced from other sources. We have the technology to maximize the recovery of a variety of products from our resource - to provide maximum economic and social benefit to our communities - and to add significant value in converting the raw log into a variety of products for national and world markets.

To those who object to such a ban on the basis of a "free trade" philosophy, I would direct their attention to the excellent report by the U.S. Department of Commerce, "The Japanese Solid Wood Products Market Profile And Outlook" prepared at the request of Senator Packwood. This report concluded that the American forest products industry is by far the most efficient in the world, and that the inability of the industry to increase imports of finished woods products to Japan (and logically to compete for logs with Japan) is the result of an extensive and complex set of "impeding factors" including: tariff escalation on finished products; wood use restrictions; subsidies to private Japanese forestry; government subsidies designed to keep marginal, uncompetitive firms in business; separate grading in Japan; unfair competitive advantage granted to other suppliers; and tolerance of cartels designed to limit competition, protect Japanese industry, and collude to limit import prices.

On our side of the ocean the debate and challenges of timber policies has lead the government to artificially constrain timber supply in a time of high demand, contrary to the concepts of "free trade."

Despite such limits on "free trade," finished products exports from the northwest are increasing, although they remain at only about half the level of log exports. Many of my members specialize in cutting products for the Pacific Rim, Australian, and European markets.

An effective and permanent ban on log exports would help fulfill the federal government's obligations to the timber communities of the west. Hundreds of communities in the west are dependent upon public timber. The mills and communities were founded and grew based on the promise of a sustained and stable supply of timber from federal forest lands. Through the years land base withdrawal for other purposes has reduced this supply, a trend which continues and may accelerate. By banning log exports and eliminating substitution, the federal government can contribute to the solution of this catastrophic problem.

The people of the western timber communities are conservationists in the traditional sense. They support the wise and careful use of the resource and a balance between timber and environmental values. Banning exports and encouraging maximum primary and secondary manufacturing of the limited resource promotes conservation. The special values of the old growth forest, which represents the

bulk of the public timber supply for the next half century, should be maximized. Most of my members are dependent upon old growth, and specialize in recovering a wide variety and value of products from each and every log. And they do so more efficiently than any foreign competitor. Banning both direct and indirect substitution will also encourage conservation. Because of the exorbitant profits available from export logs in the short term, substitution provisions encourage firms to export their own timber and to operate their mills on public timber. Eliminate this opportunity, and such mills will have to decide whether to protect their investments by utilizing their timber domestically, or to shut those facilities down and only sell timber, domestic or export. Considering the increased demand for finished products, many mills would survive and logs exports would decrease.

DIRECT SUBSTITUTION

This logically leads me to the discussion of what we view as the most serious element of the federal log export issue - substitution. Following the intent of the Congress, Forest Service regulations allow firms which historically exported some private timber and replaced it with public timber, to continue that practice within the historical base established in 1971-1973. This is direct substitution. The allowable direct substitution allocations in the current annual legislation were originally provided to assure the continued existence of some specific plants. In recent years, it has become clear that the Forest Service and BLM are not able to monitor or enforce the regulations, that the two agencies have interpretations of Congressional intent that are 180 degrees apart, that mills have been bought and

sold with export quotas included, and the original specific protection intended by the provision has long ago disappeared from the real world. Instead, it has become a provision used by private land owners to export their own timber, while using the windfall profits to subsidize purchases of public timber to operate their mills. The premium value on log exports, above a domestic value, is usually in the range of $100 per thousand board feet. If a firm is able to export, say 10 million board feet, the export windfall amounts to $1,000,000 - money that can be used to subsidize their bids on public timber against the non exporters.

Permitted direct substitution quotas are about 500 million board feet on the west coast, but less than one quarter of that amount has been reported as being used in recent years. I have members who have established quotas but have no desire or intent of utilizing them. The objective of permitted direct substitution has outlived its intent and should be eliminated.

The substitution regulations are a mismatch of confusion that makes almost anything appear possible. Even the agencies don't seem to understand the intent, or have the ability to monitor and enforce the rules.

THIRD PARTY SUBSTITUTION

Third party substitution is an even greater threat. Third party substitution occurs when a firm not eligible to purchase Forest Service timber because of its export activities acquires Forest Service timber for operating its domestic plants from a

qualified purchaser. Congress intended, we believe, that federal logs not be used to substitute for private logs, but the language only addresses substitution by the purchaser and does not discuss subsequent purchasers of the logs. Thus a loophole exists whereby a purchaser, usually a non-manufacturer not involved in export, may purchase a Forest Service sale and legally deliver the volumes to a manufacturer for processing even though the receiving firm may be heavily involved in export. The only restriction is that the government timber be domestically processed.

The volume of third party substitution is unknown. A 1985 GAO report estimated the volume at 100 million board feet, although others suspect it could be much higher. Even at the 100 million board feet level, the impacts are significant. The windfall on the exported volumes, at $100 premium per thousand board feet exported, represent a $10,000,000 competitive advantage to exporting firm. If this loophole is not eliminated, the volume of third party substitution may increase greatly as firms continue to seek the best of both worlds - maintaining both domestic processing and log export activities.

The agency has indicated it would be difficult to monitor a ban on third party substitution. We disagree. All government logs are painted with a yellow dot on the end of each logs at the time of harvest. The ports are effectively monitored to be sure no "yellow paint logs" are loaded on to ships for export. If a plant was identified as ineligible to receive government timber, the yellow paint would easily provide the same means of monitoring compliance.

THE QUIT AND SWITCH PROBLEM

Another approach to getting around the export rules is the establishment of new, smaller tributary area boundaries around a specific mill or mills. Having exported or otherwise liquidated most of their private mature volumes, some previously non-eligible firms are now entering the market for government timber. This is possible because the law only requires that an exporter stop exporting timber from an area "tributary" to a mill in order to qualify to begin bidding on Federal timber in the area. Thus firms which enjoyed the benefits of log exports for the past twenty years are now turning to the federal lands to supply their domestic manufacturing facilities. This is increasing the capacity dependant upon public timber in a time when there is already excess capacity and public supplies are projected to be reduced.

The most noteworthy example is Weyerhaeuser in the Springfield area. After years of exporting major log volumes, while also supplying their local mills, the inevitable reductions in mature volumes has caught up with them. A couple of years ago they announced the cessation of log exports from the Springfield-Cottage Grove tributary area, thus becoming legally qualified to enter the already hard pressed Forest Service and BLM timber market. Because of the loose definition of "tributary area," they continue to export their timber from Coos Bay lands less than 100 miles to the southwest. While legal under existing regulations, it is the workers and small mills that will now pay the cost of Weyerhaeuser's easy profits from logs exported over the last twenty years.

In summary, it is clear that the only effective substitution provision would be a no substitution provision - direct or third party. There will be cases where a facility owned by a company involved in export elsewhere is clearly geographically isolated from the influence of any log export activity and dependent upon public timber. In such cases provision should be made, after careful study and provision for periodic review, to permit the plant to continue to purchase and utilize public timber.

CANTING STANDARDS

Another practice used to get around the export restrictions is the practice called "merch canting" where public logs are simply sawn to the minimum size restrictions required to be called a product and then exported. No effort is made to cut the log to capture the maximum resource value or to produce specific products - qualifying the material for export is the only objective. This practice should be forbidden by establishing regulations which define "product" to be a graded and sized identifiable product intended for final use or specific secondary remanufacturing.

WOULD LOG EXPORT LEGISLATION VIOLATE THE GATT CRITERIA?

I am not an expert on international trade and will not attempt to address this complex issue. I know that Canada and some Asian countries participate in the General Agreement on Tariffs and Trade (GATT) successfully while also preventing or banning the export of their timber in favor of domestic processing.

We have requested and received a legal opinion on this issue from Alan F. Holmer and Judith H. Bello of the Washington DC firm of Sidley & Austin. They are noted experts on trade issues in general and the GATT in particular. Their report, which is attached to my testimony, indicates that the proposed legislation would survive a hypothetical challenge under various provisions of GATT.

RELATIONSHIP TO CURRENT SHORT SUPPLY PETITION

As you may know, the Northwest Independent Forest Manufacturers, a Tacoma, Washington based trade association, has filed a short supply petition with the Department of Commerce seeking restrictions on the export of public timber. This petition was filed on behalf of most of the same firms that support Senator Packwood's legislation.

We would urge that action on the legislation not be delayed on the basis of the petition. There is no doubt that the petition will demonstrate the existence of a severe log shortage in the northwest. Unfortunately, the prospect for any realistic relief is slim to none. While the petition asked for a five year ban on public timber exports, we have since learned that the maximum limit under the law concerned is one year, and then only after approval by the President and both houses of Congress. Recognizing the almost unlimited resources of the pro-export lobby, even gaining approval could take many months.

CONCLUSION

In conclusion I would note that the whole area of public timber supply is a set of very complex and difficult issues. Log exports are no exception. However, in deliberating the legislation, I would ask you to consider: Is the export of one of our most basic natural resources, public timber, good for the United States? Do log exports make our country a better and more prosperous place to live? In that context, I hope that the needs for controls on log exports from public lands will be readily apparent to the members of the subcommittee.

SIDLEY & AUSTIN WASHINGTON, D.C.

MEMORANDUM

TO: North West Timber Association

FROM:: Alan F. Holmer and Judith H. Bello

RE: GATT Issues Regarding S. 754 and S. 755

DATE: November 1, 1989

Summary

We have reviewed S. 754 and S. 755 to determine whether they present any conflict with the General Agreement on Tariffs and Trade (GATT). For the reasons set forth in detail in this memorandum, we conclude that while the GATT generally prohibits the use of quantitative export restrictions, the provisions of these bills may be grandfathered under the Protocol of Provisional Application and/or justified by specified exceptions to these provisions.

Prior and Existing Legislation

Restrictions on the sale of timber from federal lands have existed continuously since 1897. The Organic Administration Act, a rider to an appropriations act of that year, authorized timber on federal lands to be harvested under certain conditions, "but not for export" from the United States.[1] Those restrictions continued for 79 years, until repealed in 1976.[2] They were mandatory rather than discretionary; that is, they did not permit the Secretary of Interior (or, beginning in 1905, the Secretary

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[1] An Act Making Appropriations for Sundry Civil Expenses of the Government for the Fiscal Year Ending June Thirtieth, Eighteen Hundred and Ninety-Eight, ch. 2, 30 Stat. 11 (1897), provides:

> the Secretary of the Interior, under such rules and regulations as he shall prescribe, may cause to be designated and appraised so much of the dead, matured, or large growth of trees found upon such forest reservations as may be compatible with the utilization of the forests thereon, and may sell the same for not less than the appraised value in such quantities to each purchaser as he shall prescribe, to be used in the State or Territory in which such timber reservation may be situated, respectively, but not for export therefrom (emphasis added).

30 Stat. 35, codified at 16 U.S.C. § 476, repealed, Pub. L. No. 94-588, § 13, 90 Stat. 2958 (1976).

[2] Id.

of Agriculture[3]) to choose whether to allow the export of timber from federal lands. To the contrary, they expressly prohibited such exports.

At the time the United States agreed to apply the General Agreement on Tariffs and Trade in 1947,[4] the Organic Administration Act remained in effect. Moreover, the exportation of timber from federal lands was further authorized by statute only if the supply of timber for local use would not be endangered by such exports.[5]

The "Morse Amendment" of the Foreign Assistance Act of 1968[6] limited exports of federal timber from Oregon and Washington, and later was extended to apply to all federal lands west of the 100th meridian.[7]

Prior to the expiration of either the Morse Amendment or the 1897 legislation codified at 16 U.S.C. § 476,[8] controls on log exports were extended through the 1974 Department of the Interior and Related Agencies Appropriation Act.[9] Those controls

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[3] In 1905, this authority was transferred from the Secretary of Interior to the Secretary of Agriculture. An Act providing for the transfer of forest reserves from the Department of the Interior to the Department of Agriculture, ch. 288, § 1, 33 Stat. 628 (1905).

[4] Signed Oct. 31, 1947, 61 Stat. pt. (5) and (6), T.I.A.S. No. 1700, 4 Bevans 639, 55-61 U.N.T.S.

[5] An Act to Authorize the Exportation from the State or Territory of Timber Lawfully Cut on any National Forest or on the Public Lands in Alaska, ch. 117, § 44 Stat. 242 (1926), codified at 16 U.S.C. § 616.

[6] Foreign Assistance Act of 1968, § 401, Pub. L. No. 90-554, 82 Stat. 960, 1121 (1968). The Morse Amendment allowed the exportation of up to 350 million board feet of federal timber.

[7] The Morse Amendment was extended through December 31, 1973, by the Housing and Urban Development Act of 1970, Pub. L. No. 91-609, § 921, 84 Stat. 1817 (1970).

[8] Id. and supra note 1.

[9] Pub. L. No. 93-120, § 301, 87 Stat. 429, 511 (1973). This act removed the 350 million board foot exemption of the Morse Amendment, and replaced it with a rule on "direct substitution" that restricts purchasers from using federal timber as a substitute for timber exported from private lands which could have been processed in their own mills. This rule allows purchasers who had a history of purchase or National Forest

(continued...)

have been re-enacted annually as part of the appropriations process.[10]

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[9](...continued)
timber and export of private timber during calendar years 1971, 1972 and 1973 to substitute, on an annual basis, an amount subject to a quota based on this three-year period. Thus, the substitution rule preserved the historic level of exports at the time the 350 million board foot exemption was replaced by the substitution rule.

[10] Joint Resolution making continuing appropriations for the fiscal year 1975, and for other purposes, Pub. L. No. 93-324, §§ 101(b), 106, 88 Stat. 281, 282, 285 (1974); Department of the Interior and Related Agencies Appropriations Act, 1976, for the Period Ending September 30, 1976, Pub. L. No. 94-165, § 301, 89 Stat. 977, 1001 (1975); Department of the Interior and Related Agencies Appropriations Act, 1977, Pub. L. No. 94-373, § 301, 90 Stat. 1043, 1063 (1976); An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1978, and for other purposes, Pub. L. No. 95-74, § 301, 91 Stat. 285, 307 (1977); An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1979, and for other purposes, Pub. L. No. 95-465, § 301, 92 Stat. 1279, 1301 (1978); An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1980, and for other purposes, Pub. L. No. 96-126, § 301, 93 Stat. 954, 979 (1979); An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1981, and for other purposes, Pub. L. No. 96-514, § 302, 92 Stat. 2957, 2983 (1980); An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1982, and for other purposes, Pub. L. No. 97-100, § 302, 95 Stat. 1391, 1415-16 (1981); An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1983, and for other purposes, Pub. L. No. 97-394, § 302, 96 Stat. 1966, 1995-96 (1982); An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1984, and for other purposes, Pub. L. No. 98-146, § 302, 97 Stat. 919, 951 (1983); Joint Resolution making continuing appropriations for the fiscal year 1985, and for other purposes, Pub. L. No. 98-473, § 302, 98 Stat. 1837, 1870 (1984) (containing an Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1985, and for other purposes); Joint Resolution making further continuing appropriations for the fiscal year 1986, and for other purposes, Pub. L. No. 99-190, § 302, 99 Stat. 1185, 1263 (1985) (containing an Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1986, and for (continued...)

We note that exports of unprocessed Western Red Cedar logs are prohibited statutorily by the Export Administration Act of 1979, as amended.[11]

S. 754 and S. 755

S. 754[12] would restrict, without time limitation, the exportation of unprocessed logs from federal lands in the contiguous 48 states west of the 100th meridian. It would phase out both direct and indirect substitution.

S. 755, on the other hand, would authorize the states to prohibit or restrict log exports from land owned by the states. This is a new provision, and would be necessary for any such state action (which otherwise would be impermissible under the commerce clause of the Constitution,[13] which authorizes the Congress to regulate commerce with foreign nations).

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[10](...continued)
other purposes); Joint Resolution making continuing appropriations for the fiscal year 1987, and for other purposes, Pub. L. No. 99-591, § 302, 100 Stat. 3341 (1986) (containing an Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1987, and for other purposes); Joint Resolution making further continuing appropriations for the fiscal year 1988, and for other purposes, Pub. L. No. 100-202, § 302, 101 Stat. 1329 (1987) (containing an Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1988, and for other purposes); and An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1989, and for other purposes, Pub. L. No. 100-446, § 302, 102 Stat. 1774, 1823 (1989).

[11] Export Administration Act of 1979, as amended, § 7(i), 50 U.S.C. App. § 2406(i).

[12] S. 754 was introduced by Senator Bob Packwood, with co-sponsors Senators Cranston, Baucus, Burns, McClure and Stevens. 135 Cong. Rec. S3642, S3643 (daily ed. April 11, 1989).

[13] Art. I, sec. 8, cl. 3. See South-Central Timber Development, Inc. v. Wunnicke, 467 U.S. 82 (1984) (in which the Court held that Alaska's ban on the exportation of unprocessed state natural resources was invalid under the commerce clause).

U.S. Provisions Grandfathered by the Protocol of Provisional Application

After all these years, the United States still applies the GATT only through the Protocol of Provisional Application.[14] This protocol provides that the United States (and other signatories) undertake to apply "Part II of (the GATT) to the fullest extent not inconsistent with existing legislation."[15] Part II of the GATT includes Article XI.

At the time the United States signed the Protocol of Provisional Application, legislation was in effect that authorized the Secretaries of Agriculture and Interior to permit the harvesting of timber from federal lands for use within the State where the trees were cut, but not for export therefrom.[16] Restrictions on log exports from federal lands, then, may be considered grandfathered by the Protocol of Provisional Application.[17]

The United States has argued that this grandfather clause applies only to legislation that is mandatory rather than permissive; that is, the practice concerned must be required by the legislation, not simply authorized, to qualify for protection under the grandfather clause. The legislation in effect in 1947 regarding timber exports from federal lands appears mandatory, and therefore eligible for grandfather treatment under the Protocol of Provisional Application.

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[14] Protocol of Provisional Application of the General Agreement on Tariffs and Trade, 61 Stat. pt. (6) at A2051, 55 U.N.T.S. 308.

[15] Id., para. (b).

[16] Supra notes 1, 3 and 5.

[17] We note, however, that S. 754 arguably is more stringent than some prior legislation (i.e., by phasing out direct and indirect substitution), and to that limited extent could be said to increase the nonconformity of legislation that existed in 1974 with the GATT's general prohibition of quantitative restrictions on exports.

On the other hand, we note that the mandatory legislative measures that existed in 1947, when the U.S. signed the Protocol of Provisional Application, provided no safe harbors from the prohibition on timber exports from federal lands, except where the supply of timber for local use was determined not to be endangered by such exports. Therefore, an argument can be made that S. 754 does not increase the GATT-nonconformity of the statutory provisions that existed in 1947.

The legislation in effect in 1947 covered only timber exports from federal, not state, lands. Therefore, even if S. 754 is grandfathered by the Protocol, S. 755 probably is not.[18]

General Prohibition of Article XI of the GATT

Article XI:1 of the GATT generally prohibits Contracting Parties from imposing quantitative restrictions on the exportation, or sale for export, of any product destined for the territory of any other Contracting Party. The export restrictions that would be imposed by S. 754 and authorized by S. 755 would be inconsistent with this general prohibition, unless they fall within an exception under either Article XI or XX (General Exceptions). In light of the GATT's aim to reduce tariffs and other barriers to trade, such exceptions are construed narrowly.

Article XI:2(a)

Article XI:2(a) provides that Article XI:1 does not apply to:

> Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party....

A reasonable argument can be made that timber qualifies as a "product essential" to the United States, which is in "critical shortage." While it is clear from legislative history that the drafters did not intend this exception to be used as "a means of protecting domestic producers,"[19] it apparently is available in cases of "acute shortages of the products in question."[20]

It is somewhat more difficult, however, to argue that the restrictions on timber exports from federal lands are being applied temporarily. However, this term is not defined; we note in this regard that the United States is still applying the GATT "provisionally." In light of the ambiguity of the term "temporarily" and a factual record demonstrating the critical shortage of timber, both S. 754 and S. 755 could fall within the umbrella of the exception provided in Article XI:2(a).

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[18] Legislation in effect at the signing of the Protocol may be amended without losing its grandfather status, so long as any such amendment does not increase any nonconformity with the GATT.

[19] Havana Reports, p. 93, cited in Japan - Restrictions on Imports of Certain Agricultural Products, Report of the Panel at 60, L/6253 (Nov. 18, 1987), reprinted in 27 I.L.M. 1548, 1577 (1988).

[20] 2 BISD 170, 191 (para. 73); GATT Analytical Index at XI-7, citing Havana Reports at 88, para. 14.

Article XX

Article XX enumerates ten general exceptions to the GATT, two of which are most relevant to S. 754 and S. 755. A paramount requirement of each of the Article XX exceptions is that any measures sought to be justified thereunder must not be applied--

> in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade....

Article XX(g)

Article XX(g) provides an exception (subject to the above-described requirements) for measures "relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption...."

The United States does impose limits on the harvesting of timber on federal lands.[21] Moreover, we believe that timber is an exhaustible natural resource (since overcutting can exhaust supply for periods despite reforestation).[22] Therefore, Article XX(g) appears to provide shelter for S. 754 and S. 755 if they would be considered measures "relating to the conservation" of timber on federal lands.

Without question, the bills "relate" to such conservation. The conservation purpose and effects of the bills have often been cited by Senator Packwood[23] and other sponsors, supporters of these and similar bills, and in particular numerous environmental groups that have testified in support of the bills.[24] Indeed, the strong support for these bills by such a

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[21] Sale and Disposal of National Forest Timber, Timber Export and Substitution Restrictions, 36 C.F.R. §§ 223.160-223.164 (Forestry Service, U.S. Dep't of Agriculture).

[22] We note that a GATT panel and both the United States and Canada have agreed that salmon and herring stocks are exhaustible natural resources within the meaning of Article XX(g). Canada - Measures Affecting Exports of Unprocessed Herring and Salmon (Nov. 4, 1987).

[23] 135 Cong. Rec. S3642 (daily ed. April 11, 1989); "Packwood Outlines Legislative Proposal to Restrict Log Exports," News from Bob Packwood (March 3, 1989).

[24] E.g., the Wilderness Society, Sierra Club, National Audubon Society, and National Wildlife Federation.

broad range of environmental groups indicates the bills' conservation purpose and effect.

We note, however, that some supporters of these bills have stressed another purpose and likely effect of the bills: the creation of log processing jobs. In the United States' complaint against Canadian restrictions on the exportation of unprocessed salmon and herring,[25] the United States argued, and the GATT panel ruled, that measures must be "primarily aimed" at conservation to be within the meaning of Article XX(g); merely being "related" to conservation (as Canada had argued) was insufficient.

Obviously we cannot anticipate with certainty how any GATT panel would rule, in response to a hypothetical challenge under Article XXIII. However, the argument that the bills are primarily aimed at conservation is certainly reasonable. (Why else would so many environmental groups so strongly support them?) We note that previous legislation limiting exports of timber has been discussed largely in terms of conservation, and continued focus on this objective would strengthen the argument for GATT legality. Moreover, politicians, by nature, are likely to stress any job-generating effects of a legislative initiative; therefore, such statements should not be viewed as dispositive.

Article XX(j)

Article XX(j) provides an exception (subject to the above-described requirements) for measures--

> (E)ssential to the acquisition or distribution of products in general or local short supply; Provided that any such measures shall be consistent with the principle that all contracting parties are entitled to an equitable share of the international supply of such products, and that any such measures, which are inconsistent with the other provisions of this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist. The Contracting Parties shall review the need for this sub-paragraph not later than 30 June 1960.

S. 754 and S. 755 fulfill some, but perhaps not all, of these criteria. Timber does appear to be in short supply. However, some might query whether export restrictions are "essential" to the acquisition or distribution of timber. Moreover, the bills do not contain a provision terminating or reducing the restrictions at such time that timber is no longer in short supply. (This per se would not be dispositive, of course, since the bills could be repealed if and when the short supply conditions no longer pertained.)

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[25] Canada - Measures Affecting Exports of Unprocessed Herring and Salmon at 22 (Nov. 4, 1987).

Conclusion

The enactment of S. 754 and/or S. 755 would not necessarily precipitate a challenge to their GATT legality under Article XXIII. The countries that would be most directly, commercially affected probably would be Canada and Japan. Canada has its own log export bans; and Japan still has significant import restrictions on rice (which it would presumably seek to justify under a GATT exception). Therefore, the two countries most affected by the restrictions seem unlikely to mount a challenge. However, particularly with the United States pushing hard for trade liberalization in the ongoing Uruguay Round multilateral trade negotiations, a challenge remains possible.

In the event of a hypothetical challenge, the United States would have a reasonable chance of prevailing in a GATT panel. With respect to S. 754, the U.S. could rely on the grandfather provision of the Protocol of Provisional Application, with reasonable likelihood of success. With respect to both bills, the U.S. would have credible arguments that both bills are covered by Article XI:2(a) and/or Article XX(g).

The outcome of a possible GATT challenge cannot be predicted with certainty. In our view, however, the United States would have a reasonably good chance of defending S. 754 and S. 755 successfully, if their enactment and application were challenged in the GATT.

Senator SARBANES. All right, thank you, sir.
Mr. Caffall.

STATEMENT OF DOUGLAS CAFFALL, PRESIDENT, CAFFALL BROS. FOREST PRODUCTS, INC.

Mr. DOUGLAS CAFFALL. Mr. Chairman, thank you for the opportunity to appear before this Committee this morning. I ask that my written statement be submitted for the record and I'll summarize my remarks.

Senator SARBANES. The full statement will be included in the record.

Mr. DOUGLAS CAFFALL. Mr. Chairman and members of the Committee, I'm Doug Caffall, President of the Caffall Brothers Forest Products, Incorporated, a third generation wood products company headquartered in Wilsonville, Oregon, with sawmill operations in Oregon, Washington and Idaho, employing 150 individuals.

Our business consists of exports of logs to the Pacific Rim countries and the processing of other forest products for the domestic market.

I appear before you this morning also as a spokesman for the timber and trade interests of two leading forest products trade associations—Washington Citizens for World Trade, headquartered in Seattle, and Pacific Rim Trade Associated, based in Portland.

Mr. Chairman, our Association strongly oppose the bills before you today because they will create costly subsidies for some mill owners in the Northwest at the expense of Northwest communities who depend on free flow of trade in forest products.

We also believe that these bills are simply bad public policy. U.S. trade policy should not be fragmented by hasty attempts to subsidize the operation of just one segment of an industry in the Northwest.

Many companies, such as mine, now compete effectively in the international lumber market. Restrictions on log exports, artificially depressed timber prices can provide subsidized timber to my domestic competitors.

If exports are restricted, my company will have to compete against their subsidized operations. Also, log export restrictions threaten U.S. trade policy goals such as promotion of agricultural exports, coherent Federal controls of timber policies and elimination of trade barriers.

It is difficult to understand why the United States would risk the serious trade policy consequences of log export restrictions just to bail out a select group of mill owners.

We hear all the time that the United States needs to export more. Personally, it makes no sense to tell successful exporters like myself that we can no longer export while at the same time subsidizing companies who have not done anything to help develop the export market.

Timber supply crunch in the Northwest is a regional problem that is currently being addressed by industry and public officials. I personally do not believe that the long-term solution to the region-

al problem of forest management and timber supply can be sold by a very bloody fight in Congress over log export restrictions.

I also wish to speak on S. 754 and the practice of so- called third party or indirect substitution.

Substitution regulations allow a company to sell some of the timber purchased in a Federal timber stand to a domestic mill, which may be owned by a forest products company that also exports private timber.

Let me use Caffall Brothers to illustrate my point. To run our operations in Oregon, we must buy logs from more than 80 individuals and companies. Although some of this volume comes from private-owned sources, the majority is non-export public timber.

Under the terms of S. 754, however, we would be prohibited from buying any public timber for use in our domestic mills simply because we also export unprocessed logs. We would be forced to rely completely on private timber and would have to decrease our production by at least 50 percent and eliminate up to 45 jobs.

This legislation won't help companies that are adversely affected by reduction in the Federal harvest. It could hurt Northwest mills that depend on timber acquired under substitution regulations. Some of these, including Caffall Brothers, may be shut down if S. 754 is enacted.

The current regulations serve their intended purpose, giving non-export firms preferential access to Federal timber sales. The original purchaser can either process logs or sell them to another domestic mill better suited to manufacture them.

Mr. Chairman, why shouldn't a purchaser of Federal logs be allowed to sell the logs he cannot process efficiently so long as they are processed domestically?

Mr. Chairman, I ask this Committee to compare the negative impacts of both these bills with the questionable value of log export restrictions.

On behalf of Washington Citizens for World Trade and the Pacific Rim Trade Associations, I sincerely urge you to oppose S. 754 and S. 755.

[The complete prepared statement of Douglas Caffall follows:]

TESTIMONY OF DOUGLAS CAFFALL

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY

ON S. 754 AND S. 755

NOVEMBER 7, 1989

Mr. Chairman and members of the Committee, I am Douglas Caffall, President of Caffall Brothers Forest Products, Inc., a third-generation wood products company headquartered in Wilsonville, Oregon, with sawmill operations in Oregon, Washington and Idaho, employing 150 individuals. Our business consists of the export of logs to Pacific Rim countries, and the processing of other forest products for the domestic market.

Our company, started by my grandfather in the 1930's, has been a supplier of logs and lumber to Far Eastern countries -- particularly Japan -- since that time, and is considered today one of the more successful mid-sized companies engaged in the forest products export trade.

I appear before you this morning as a representative not only of Caffall Brothers Forest Products, but also as a spokesman for the timber and trade interests of two leading forest products trade associations -- Washington Citizens for World Trade, headquartered in Seattle, and Pacific Rim Trade Association, based in Portland.

Our associations strongly oppose the bills before you today, for two main reasons. First, we believe that S. 754 and S. 755 will create costly subsidies for some mill owners in the Northwest at the expense of the members of the Northwest economic community who depend on the free flow of trade in forest products. Second, we believe that S. 754 and S. 755 are simply bad public policy; U.S. trade policy should not be fragmented and undermined by hasty attempts to subsidize and protect the operations of just one segment of an industry in one region of the country.

Restrictions on Log Exports Would Endanger Critical Elements of the Northwest Economy

S. 755 would permit states to impose restrictions on log exports from state lands, and Oregon and Idaho have already taken the necessary steps to activate such restrictions should S. 755 be enacted. Accordingly, passage of S. 755 would automatically restrict state log exports in my state, and would have a devastating impact on the forest product export business throughout the Northwest. Let me give you some practical examples of the impact of log export restrictions:

- The operations of my company and many other Northwest forest product companies can be conceptualized as a "three-legged stool" comprised of log exports, finished product exports and domestic finished products sales. Export-generated revenues have been invested in our sawmills and domestic operations. Exports also keep us going when the domestic market slows. Removing one leg of the stool affects the economic balance of our operations.

- Many companies, such as mine, now compete effectively in the international lumber markets. Restrictions on log exports artificially depress timber prices and provide subsidized timber to my domestic competitors. If exports are restricted, my company will have to compete against these subsidized operations.

- Those of us who began by selling only logs and then moved to selling more finished product to the Pacific Rim know that restrictions on the logs in our product mix will have immediate negative effects on sales of finished product. My credibility, and that of our industry, as a reliable supplier of wood products would be jeopardized.

- Northwest ports, especially those smaller ports who do not have container facilities geared to lumber, will be significantly affected by the drop-off in log exports. Jerry Hendricks, executive director of the Port of Port Angeles, Washington, will speak directly to this issue in his remarks.

- Export service employment for longshoremen and stevedores would be threatened by log export restrictions. Glen Ramiskey, from the International Longshoremen's and Warehousemen's Union, will address labor impacts of S. 755.

- The 30,000 small private tree farmers in the Northwest are threatened by log export restrictions. Any artificial suppression of timber prices jeopardizes their ability to harvest and reinvest in their acreage. This is an important point and should not be lost. Log export restrictions will over time reduce timber supply, leading to lower revenues.

- Passage of this legislation would not only restrict international trade, it would restrict interstate trade. Oregon and Idaho have already passed laws to prohibit the movement of logs outside of their state. The state of Washington, for example, has initiated a law to enable counties to restrict the sale of logs to certain domestic processors. This is protectionism in the extreme, and could cause interstate trade wars.

Beyond the direct economic impacts on Northwest export-related businesses, the cost of log export restrictions to the taxpayers in the Northwest should also be emphasized. S. 755 subsidizes small mill owners by reducing the price of logs from state lands, but this means that the states would receive significantly less revenue from timber sales. In Washington State, this problem is acute, because state school construction funds depend on state timber revenue. The Washington State Department of Natural Resources (DNR), for example, estimates that a ban on state log exports would reduce state timber sale revenue by nearly $100 million annually. DNR is submitting a statement to the Committee that makes the point that taking away money from education in the hopes of satisfying one segment of the forest products industry seems short-sighted in the extreme.

Log Export Restrictions Undermine U.S. Trade Policy Goals

When the House Foreign Affairs Committee considered state log export restrictions last year, the negative implications of these restrictions became clear. Universally-agreed goals of U.S. trade policy such as a balance of trade, promotion of agricultural exports, coherent federal control of trade policy and multilateral reform of barriers are all compromised by log export restrictions. For example:

- In light of our current trade deficit, attempts to restrict U.S. exports are patently foolish, especially when wood products is one of the few areas where the U.S. enjoys a positive trade balance.
- Congress has gone to considerable lengths to promote exports of agricultural commodities, yet S. 755 would create restrictions on agricultural commodities merely to appease a noncompetitive segment of one industry.
- Allowing individual states, and perhaps counties, to impose U.S. agricultural export restrictions is inimical to the constitutional framework of federal control of foreign commerce.
- Imposing export restrictions at this time would prove an embarrassing inconsistency with U.S. agricultural reform proposals in the Uruguay Round. Moreover, passage of S. 755 would violate the U.S. "standstill" agreements in the Round.

It is difficult to understand why the U.S. should risk the serious trade policy consequences of log export restrictions just to bail out a select group of mill owners. The timber supply crunch in the Northwest is a regional problem that is being addressed responsibly in other fora by industry and public officials in the Northwest. I personally do not believe that the long-term solution to the regional problems of forest management and timber supply are advanced by a bloody fight in Congress over log export restrictions.

I have thus far addressed my remarks to the state log ban permitted under S. 755, but I also wish to speak to S. 754, and the practice of so-called third-party -- or indirect -- substitution. Because S. 754 deals with some complicated

concepts, and because the bill will affect my company in a very direct manner, I would like to spell out my view of this bill in some detail.

The term "substitution" has come into usage only since the imposition of a ban on log exports from federally-owned lands. It refers to the concept that logs purchased from federal lands may be cut into lumber, processed into plywood, or put to a variety of other domestic uses by a company that has also sold unprocessed logs from its own or other private land into the international market.

To put it another way, substitution regulations allow a company to sell some of the timber purchased in a federal timber stand to a domestic mill, which may be owned by a forest products company that also exports private timber. I again wish to emphasize that neither my company nor any other company I know exports federal logs.

Permit me to use Caffall Brothers to illustrate my point. Our domestic production specializes in red cedar products such as posts and fencing material, decking, siding, and dimension lumber. We purchase our red cedar logs from various Forest Service or BLM timber buyers -- or third parties. We do not purchase or own any Forest Service or BLM sales ourselves.

To run our mill operation in Oregon, we must buy red cedar logs from more than 80 individuals and companies. Although some of this volume comes from privately owned sources, the majority is public timber, which is non-exportable. Under terms of S. 754, however, we would be prohibited from buying any public timber for use in our domestic mills, simply because we also export unprocessed logs. We would be forced to rely completely on private timber sources, and would have to decrease our production by at least 50 percent, thereby eliminating up to 45 jobs.

Additionally, our competitors who are not exporting would still be able to purchase public timber, to our distinct competitive disadvantage. This subsidy would enable our competitors to obtain raw material at below market cost, at the expense of federal timber receipts, their beneficiaries and saw mill operators such as Caffall Brothers. I feel that if S. 754 is passed, my company has four options:

The first option is to stop purchasing any Forest Service or BLM timber for our mills. I doubt very much that we could continue our domestic operation without access to a Federal timber supply. At best, it would be severely curtailed, with a corresponding loss of jobs.

The second option would be to discontinue private log exports, which would allow us to buy all the red cedar logs that would be available to us. This option would result in severe -- perhaps fatal -- revenue losses, because our company sales are approximately two-thirds export-related.

The third option would be to sell the sawmills to another company. This probably would be on a fire sale basis, because my competitors all know that we export.

The fourth option would be a complete shut down of our Oregon mill, and resulting in an immediate loss of 50% of our employment base. I can assure you, Mr. Chairman, that I would not be comfortable with any of these options. Possible sale of my sawmills would mean dealing with a number of foreign interests who have been actively pursuing acquisitions of Northwest sawmills.

Many in the anti-export camp claim that substitution is an overly used and much abused loophole in the law, and is being used by log exporters to get around the ban on federal log exports. That is simply not the case. There have been two GAO reports on substitution, one in 1985 and one released this week. Both GAO Reports show how little timber is involved in substitution, and neither GAO Report found any evidence of widespread abuse of the USFS or BLM Regulations.

According to the 1985 GAO study, approximately 100 million board feet of public timber was sold that year under substitution regulations, less than 2 percent of the Federal harvest in Oregon and Washington. This GAO study found that the industry had "adapted well to the present substitution regulations. . . The present system of log exchanges benefits the public by encouraging economy in the mills, stable employment in the industry, and maximum utilization of the timber resource."

At the request of Congressman Peter DeFazio, another study on direct and indirect substitution has just been completed by the GAO. I believe a copy of that report has been submitted to this Committee. I have not seen the final draft, but I am confident that the 1989 report will show, just as did its 1985 predecessor, that third-party substitution does not affect a significant volume of timber, nor are there widespread abuses of the regulations. While the new GAO report apparently notes that regulatory control mechanisms and penalties could be strengthened and harmonized, these findings do not change the basic fact that third party substitution is not a significant factor in timber supply issues, and does serve as a means of efficient market operation.

S. 754 would prevent the efficient movement of federal timber between mills. It would also cause purchasers of Federal timber stands to be unable to market or utilize some of the species and sizes of timber for which they have no use. The end result would be a devaluation of the total sale, with its subsequent reduction in revenues shared by the Forest Service or BLM and individual counties.

This legislation won't help companies that are adversely affected by reductions in the Federal harvest. However, it could hurt Northwest mills that depend on timber acquired under substitution regulations. Some of these -- including Caffall Brothers -- may be shut down if S. 754 is enacted.

The current regulations do serve their intended purpose -- giving non-exporting firms preferential access to federal timber sales. The original purchaser then can either process the logs or sell them to another domestic mill better suited to manufacture them. Why shouldn't a federal timber sale purchaser be allowed to sell logs he cannot process efficiently, so long as they are processed domestically? Why shouldn't an exporting firm be allowed to compete for such logs on the open market as long as the logs will receive domestic processing?

When this Committee compares the negative impacts of both these bills with the dubious value of log export restrictions to a group of non-competitive mill owners, I believe that S. 754 and S. 755 will be defeated. I also wish to remind the Committee that short supply proceedings on public log exports are currently pending at the Department of Commerce pursuant to the Export Administration Act. At the very least, I urge this Committee not to prejudice these proceedings by hasty action on these bills.

Legislation that doesn't solve the timber industry's problems, prohibits the most efficient and most beneficial use of our resources, and causes additional economic disruption in the forest products industry is bad public policy.

In closing, on behalf of Washington Citizens for World Trade and Pacific Rim Trade Association, I sincerely urge you to oppose S. 754 and S. 755.

Thank you.

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Senator SARBANES. I'd like to be clear on one question. You indicated you were speaking for the Pacific Rim Trade Association. Is that correct?

Mr. DOUGLAS CAFFALL. That is correct.

Senator SARBANES. And yet we have this letter from the Georgia Pacific Corporation, a member of the Pacific Rim Trade Association, taking a position on this legislation diametrically opposed to the one you asserted on behalf of the Association; which obviously leads to the question of:

On what basis are you speaking for the Association? Or for how much of the Association are you speaking?

Mr. DOUGLAS CAFFALL. Well, Mr. Chairman, I have not talked to Georgia Pacific since I've been back here. That is the first time I have heard about that letter. However, I know that they have opposed restrictions in the past, but I think we need to look at the overall picture of both organizations in which we have voted to oppose both of these bills.

Now, I can't really speak for Georgia Pacific. I can just speak for——

Senator SARBANES. The Association took a formal position on these bills?

Mr. DOUGLAS CAFFALL. Yes.

Senator SARBANES. OK. When did they do that?

Mr. DOUGLAS CAFFALL. I'd have to look back in my records, but it's been, oh, a couple of months ago.

Senator SARBANES. OK.

Mr. DOUGLAS CAFFALL. I'd also like, if I may, to point out that Georgia Pacific was named on the short supply petition that was sent back here. And they have asked to be taken off of that position.

Senator SARBANES. Well, of course, an Association can take a position and some of its members may disagree with the position. It still represents the position of the Association. I just wanted to establish that for the record.

But, the Pacific Rim Trade Association has formally taken a position on this legislation in opposition to it; is that correct?

Mr. DOUGLAS CAFFALL. That is correct.

Senator SARBANES. Thank you.

Next, I think we will turn to Mr. Hendricks, the Executive Director of the Port of Port Angeles, and a member of the Board of Directors of the American Association of Port Authorities.

And, Mr. Hendricks, we will then follow you with Mr. Frampton, the President of the Wilderness Society.

STATEMENT OF D.G. HENDRICKS, EXECUTIVE DIRECTOR, PORT OF PORT ANGELES, MEMBER, BOARD OF DIRECTORS, AMERICAN ASSOCIATION OF PORT AUTHORITIES

Mr. HENDRICKS. Thank you, Mr. Chairman. I also have a written statement I would like to present to the record.

Senator SARBANES. It will be included in the record.

Mr. HENDRICKS. My name is Jerry Hendricks. I am the Executive Director of the Port of Port Angeles in Port Angeles, WA. I'm also a member of the American Association of Port Authorities and

presently serve as President of Washington Citizens for World Trade.

I'm here to testify against S. 754 and S. 755.

The American Association of Port Authorities had extensive discussions around these bills in a recent meeting in Tampa, Florida. The U.S. Delegation passed a Resolution that's attached to my testimony representing the opposition to those bills.

The principal concern is a diametrically opposed position that these bills would be regarding support of expanded trade policies, where these bills tend to represent just the opposite.

A particular concern I think of the Association membership is the precedents these types of legislation, if passed, would present to the various agricultural interests. Not only forest products, but other agricultural products.

Our membership only remembers too well, issues like soy bean and wheat embargoes that were presented and didn't work all that well. We don't look forward to this type of legislation.

Also of concern to the Association membership is the issue of delegation of trade policies to the State. And in this case, possibly even to State subdivisions.

So the American Association has presented a Resolution that would oppose these bills. Personally, I am from a timber family. My grandfather, my father and I have grown up in the business. My earliest work experience, in fact, was working in my father's small sawmill.

I personally have experienced over my working career the cyclical nature of the timber business. What we see right now is the period of time when both domestic and export markets have been strong and have caused some extreme movements in prices and have caused some difficulties for segments of the industry.

However, I can remember only too well years when exports and export markets were not available to our products and the lows were much lower than we had seen in the past.

In the early eighties, when both the domestic and the export markets were soft, in our community, log exports were just about the only game in town.

Many mill workers were out of work, but there were many loggers, truckers and rock workers that were able to provide for their families.

I guess I'd like to address a couple of misconceptions that I'd heard. First of all, an export log has been characterized as a raw material with no value added services to it.

And I want to tell you that that is just not the case. In our community, a typical value-added log were services of something in the magnitude of $90 per thousand board feet.

If I can believe, and I believe these numbers I've seen are true, a reasonably modern sawmill on an equivalent basis might be providing value added of something about $110 a thousand board feet.

Now I will grant you that that $110 is larger than $90, but we can't discount that 90 is a very substantial—represents a substantial number of jobs, a substantial number of services provided by U.S. workers for that product.

The other issue I guess I'd like to touch on is the issue of price. What we're talking about is price of timber.

I have to believe that bills such as this that are designed to drive the price of timber down will not necessarily help this industry.

The private sectors of our industry need to reinvest and have been reinvesting, but if we expect that to happen in the long-term, the commodity has to have value.

Likewise, many of the environmental goals that we have laid out or would like to lay out for forestry, in the forests of our Western United States, are going to cost money. That means the products have to be valuable to carry that.

And those considerations I wish you would filter in to some of your thinking here.

I guess I would also just like to end with these kind of proposals are, in my view, a very quick fix or an attempt at a quick fix and some problems that deserve much more consideration and a much better proposal.

It's bad policy and a bad idea.

Thank you.

[The complete prepared statement of D.G. Hendricks follows:]

TESTIMONY OF D. G. "JERRY" HENDRICKS,

EXECUTIVE DIRECTOR OF THE PORT OF PORT ANGELES

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

U.S. SENATE

NOVEMBER 7, 1989

Mr. Chairman and Members of the Subcommittee:

My name is Jerry Hendricks and I am the Executive Director of the Port of Port Angeles in Washington State, and a member of the Board of Directors of the American Association of Port Authorities (AAPA) representing the North Pacific Region. I am also currently serving as President of the Washington Citizens for World Trade, a forest products and maritime trade group headquartered in Seattle.

I am here to speak in opposition to S. 754 and S. 755 both from a local perspective as representative of these two organizations and from a national perspective as well.

AAPA was founded in 1912 and represents virtually every U.S. public port agency, as well as the major port agencies in Canada, Central and South America and the Caribbean. My testimony today, however, reflects only the views of the United States delegation of AAPA.

Mr. Chairman, the Port of Port Angeles, like many other West Coast ports, depends to a large extent on revenue earned from log exports. Of the twenty ports in California, Oregon, Washington and Alaska that handle export logs, nine are primarily log export ports. Some, like the Port of Port Angeles, depend heavily on logs harvested from state owned lands. Ports like ours have much to lose from further restrictions on these exports.

While the vast majority of U.S. ports do not depend on log exports for a significant percentage of their revenue, they are, as you know, mandated by law to serve public purposes, primarily to facilitate waterborne commerce and to generate local and regional economic growth. I just returned from the annual meeting of the American Association of Port Authorities where we had considerable discussion about these two pieces of legislation.

The AAPA has consistently supported a U.S. trade policy aimed at international trade liberalization on a fair and equitable basis. More specifically, we favor approaches or policies that increase rather than diminish trade flows and that enhance the stability and effectiveness of the international trading system. Given our current trade imbalance, we find it all the more imperative that we look for ways to increase exports while maintaining open markets at home.

The members of AAPA have serious reservations about these two bills, especially S. 755, which would give states the authority to prohibit exports of logs from state owned lands. We believe that such a policy is inconsistent with our nation's long term international trading interests and conflicts with a coordinated and far-sighted U.S. trade policy.

We believe that, first and foremost, the federal government, and not the individual 50 states, should determine which products should or should not be exported. S. 755 would, in our mind, establish a dangerous precedent by turning this responsibility for regulating international commerce over to the state governments--a consequence clearly not intended by our founding fathers. Recent actions in Washington and other states would indicate that this authority might even be delegated to local governments. While S. 755 may be limited to logs today, as those of us involved in international trade wonder which other commodities might follow.

We also question whether the U.S. government should send a signal to the states and our trading partners throughout the world that export restrictions and other unfair trading practices meet with the approval of the Congress while at the same time that we are encouraging other nations to remove their barriers and to open their markets to U.S. products.

Mr. Chairman, log exports contributed over $2 billion to the plus side of our country's trade balance last year, according to the U.S. Department of Commerce. In addition, log exports have opened doors and allowed us to establish relationships with our trading partners which have led to a dramatic increase in exports of manufactured forest products. Last year, for example, in addition to the $2 billion worth of logs we exported, the U.S. exported $10 billion worth of lumber, plywood, pulp, paper and other manufactured products.

In Oregon and Washington, where most of the log exports originate, exports of manufactured forest products have increased dramatically over the last 10 years. In fact, the value of softwood logs exported as a percent of total forest products exports has declined from 61 percent in 1978 to 38 percent in 1988.

As port authorities, we strongly favor exports of value added products and believe this positive trend will continue. However, we also recognize that we must compete with the rest of the world and that trade embargoes and other forms of export restrictions often do more harm than good. That was certainly the case with our ban on soybean exports in the sixties and our more recent experience with the Soviet wheat embargo.

The fact of the matter is, we are not a monopoly supplier of logs and our competitors in the Soviet Union, Chile, Australia, New Zealand and British Columbia would welcome an opportunity to capture all or a portion of our overseas log markets.

One point that is regularly overlooked is that a log entering the export market is, in fact, a value added product. In our port, a typical log receives processing and handling services amounting to nearly $90 per thousand board feet which is in the range of processing costs in a modern sawmill.

The American Association of Port Authorities strongly believes that these two bills represent bad trade policy. We believe these two pieces of legislation, if passed, would not only reduce exports of logs, but would also threaten exports of other commodities as well by inviting retaliation by our trading partners and undermining their confidence in us as a reliable supplier.

For these reasons, the American Association of Port Authorities has adopted a resolution in explicit opposition to both S. 754 and S. 755, attached to this testimony, which I would like to submit for the record.

Now, Mr. Chairman, I would like to give you a more localized perspective on these two bills.

I grew up in a family that, since my grandfather's time, has been directly involved in the timber industry. In fact, my earliest work experience was in my father's small sawmill that eventually I supervised.

Like many other timber dependent communities in the Pacific Northwest, we have experienced the ups and downs of this very cyclical industry. The last couple of years have been good for us as a result of a high demand for wood products here in the U.S. and a weakened U.S. dollar and strong demand for our products overseas. However, in the early part of the 1980's, our community was in the throes of a deep worldwide recession. The U.S. housing market had collapsed and overseas markets were sluggish due to the high value of the dollar relative to other currencies. There was no shortage of timber, but there was a definite lack of customers for our lumber, plywood, pulp and paper products.

In fact, log exports were just about the only game in town for us and many companies and families during those dark days. Even though many of our mills closed, at least we were able to keep some of our loggers, truckers and longshoremen busy cutting, handling and processing logs for the export market.

Today, we have a different problem in our area. Both export and domestic markets are strong, not only for our logs but for our manufactured products as well. However, as a result of lawsuits and appeals brought by environmental organizations, we face significant cutbacks in the amount of timber which will be sold from federal lands. As a result of this artificial shortage of timber--because there's no general shortage of timber in the woods--we once again face mill closures and layoffs as we did in the early 1980's. In an effort to soften the blow for those mill owners and their workers, some well meaning individuals have suggested that we should shift some of the exported logs to the mills. That, in a nutshell, is what these two bills are about. In fact, the underlying intent is to reduce competition in the market to lower the price of timber. Domestic processors can and do buy state timber sales now.

If the intent of these two bills is to provide a new source of timber for mills who are losing their federal timber supply, the proponents would likely be very disappointed by the results should these bills become law.

First, there is a provision in S. 754 which would make the federal log export ban permanent. However, since 1973, logs from federal lands have been restricted from the export market and set aside for domestic mills. So, this is a moot point. Earlier this year, the Bush Administration proposed that the ban should be lifted to generate more revenue for the Treasury and to eliminate an embarrassing U.S. trade restriction. I believe that is what precipitated this provision of the bill. However, it is my understanding that the Administration has now reconsidered and will not push for the repeal of this federal trade restriction. If that is the case, why do we need this legislation?

Secondly, S. 754 would eliminate the practice of "substitution," again ostensibly to free up more timber for domestic mills. However, in 1985 the U.S. General Accounting Office concluded that the practice of "substitution" benefited the "public by encouraging economy in the mills, stable employment in the industry, and maximum utilization of the

timber resource." Earlier this year, the GAO was asked to update their 1985 study to see if circumstances had changed. That study is nearly complete now. Wouldn't it make more sense to see the results of this new study before hastily acting to eliminate a practice which was found to be beneficial to all parties only a few years ago?

Furthermore, log exports from state owned lands account for only 7% of the state wide timber harvest in Washington state and far less in Oregon. Attempting to divert this small amount of timber from export markets will not solve the overall timber supply problem for some mills who depend on federal timber. But it will create a host of new problems. Like unemployment for over a thousand loggers, truckers, longshoremen and port employees in Washington state and a $100 million loss in revenue to our schools and local government. In fact, in the most exhaustive study to date on the effects of a log export ban in Washington, researchers found that a ban would result in a net loss of over 400 jobs. To achieve a net job gain, the researchers concluded that it would cost Washington state taxpayers between $128,000-$230,000 for every job created in a sawmill.

Mr. Chairman, there is a better way to solve the complex problems facing the forest products industry in our state. Instead of imposing trade restrictions, we should be seeking ways to increase our exports of finished products. Product promotions as well as aggressive trade negotiations to remove wood products trade barriers, such as those now underway with Japan under the Super 301 provisions, is the obvious alternative that should be pursued.

Furthermore, the Senate recently passed and the president has since signed into law the so called Adams-Hatfield measure designed to provide some short term relief to our region's timber supply problem. Development of long-term policies to allow timber harvesting, while protecting valuable environmental resources on federal lands, will provide more meaningful help to those seeking this legislation.

This is not the time for "quick fix" measures like S. 754 and S. 755. Instead, we need policies which further the values of a healthy forest products industry, expanding trade and a healthy environment. We urge you to oppose these two measures.

Thank you.

American Association of Port Authorities

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SUPPORTING WOOD PRODUCT EXPORTS AND OPPOSING CONSTRAINTS ON STATE LOG EXPORTS

WHEREAS, wood product exports are a significant element of port activities throughout the United States, and many ports are heavily dependent on the export of logs and lumber; and

WHEREAS, wood products exports contribute heavily to our country's trade balance and development of export opportunities for the United States; and

WHEREAS, the growing wood product export markets and the ports servicing those markets could be adversely affected by legislative or administrative log export bans; and

WHEREAS, limitations on the exports of agricultural commodities such as logs could set an unfortunate precedent for further restrictions of agricultural commodity exports which are essential to the economic interest of our port cities and regions; and

WHEREAS, the American Association of Port Authorities has consistently supported the expansion of exports and opposed attempts to limit export markets;

NOW THEREFORE BE IT RESOLVED, that the American Association of Port Authorities views continued expansion of wood product exports as a critical segment of port activities, and believes that attempts to limit log exports may endanger both the wood product export trade and the growth of ports servicing that trade; and

BE IT FURTHER RESOLVED, in view of the dependency of many ports on wood product exports in general, and log exports in particular, the American Association of Port Authorities opposes any legislative or administrative attempt to limit log exports; and

BE IT FURTHER RESOLVED, that the American Association of Port Authorities is opposed to the restriction of agricultural commodity exports, and is greatly concerned about the negative precedential effects of limitations on the export of agricultural commodities such as logs.

Recommended by U.S. Legislative Policy Council
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10/89

Senator SARBANES. Thank you very much.

We've been joined by Senator Heinz.

John, I don't know if you have any statement you wish to make.

Senator HEINZ. I have a couple of comments I'd like to make, if I might, Mr. Chairman.

Senator SARBANES. Surely.

OPENING COMMENTS OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, I apologize for not being here to hear all the testimony of all the witnesses. I do note that Bob Packwood is seated over there keeping an eye on things, probably taking names. [Laughter.]

And I just want to make a couple of observations. I have some sympathy for the situation in many of the States in the Northwest where there's a little lumber mill that's having difficulty selling its products; compared to what the Japanese can pay, the price of timber is pretty high. That little mill may provide 50, 100, 200 jobs. It's the only place near the small town where anybody can get work.

And I have in my own State similar situations. Little garment or apparel mills that might employ 50, 100, 150 people, exactly the same situation. It's the mainstay of the town.

And we all come under enormous political pressure to find a solution when that mill, whether it's a lumber mill or a textile mill, is faced with potential closure.

The causes of course are different. In the case of the garments or apparels, the situation is that there is a glut of world supply, often from low-wage countries where there are very few, if any, worker protections on health and safety, where there's an imperative to export.

In the case of timber, as I understand it, the basic problem is that there is lack of domestic demand for domestic mill products.

Someone can correct me if I'm wrong. And that's complicated by the fact that you've got some people with a valuable yen, with a yen for lovely timber. And they are in a position to out-bid anybody, whether it's timber or irises. They are in a position to pick up whatever they want.

And then you get to the solutions.

Now, the solutions are a little tougher because at least in the case of garment, textiles, where there's a world glut, there's an established procedure in the GATT, an escape clause action, Section 201. You go through a procedure and if you merit protection, you get it.

There are options available to the President. The President doesn't have to do it if he doesn't want it. He can weigh a variety of factors.

In the case of the proposals as I understand them made to solve this problem, there are basically two.

One is to provide—and I think this is Senator Packwood's bill—basically, a State option approach. Now that is very different than anything we have on the books today. It's very different from the structure of our trade laws, which are national and which have a series of checks and balances built into them.

And what the legislation does is kind of interesting. It really allows States to impose a content requirement. Traditionally, the American view of content requirements has been, well, we're against them because we don't want other people to emulate them.

Now, I'll be the first to say that I think there are times when content requirements make sense. We do have some Buy America requirements on certain national defense articles. But that's buying with the taxpayer's money. This is not a case involving the taxpayers.

And, second, it is a State option. That gives me considerable pause because while I might be attracted to some of these principles and problems because they strike a resonant chord with me, the methodology for achieving them strikes me as very dangerous, having 50 different trade policies in this instance.

I think a better solution would be to make the short supply provisions that we have in the trade law generally apply to timber.

Now, the problem is that the short supply laws as written are for manufacturers generally, whether it's scrap steel, which falls under their purview once in a while, are different than those that apply to timber.

And that's because timber is managed by the Department of Agriculture. And because of the very unfortunate experience we had with grain exports when President Carter put on a grain embargo to the Soviet Union, the way the short supply provisions have been written with respect to agricultural products, including lumber, make them more difficult to apply.

Nonetheless, I think the right answer is:

Shape those up. Make them work. Don't make a provision unworkable just because one President on one occasion made a mistake that all the farmers are very sorry about.

And that, Mr. Chairman, is kind of my opening statement, leading to a question, which is:

Does anybody disagree with my analysis or my conclusion? [Laughter.]

Mr. R.D. HAYWARD. I would just correct one thing, Senator. We are not faced with a demand problem for our product. The United States for the last several years has had record consumption of wood products and demand overseas for finished products is also increased.

Ours is a supply-based problem rather than a demand.

Senator HEINZ. Then why can't the mills compete with the Japanese for the logs and pass the price on to the consumer?

Mr. R.D. HAYWARD. I think that's probably a question we've asked a long time, and we were very pleased about a year and a half ago when Senator Packwood asked Commerce to look at Japanese trading practices to try to give us a clue as to why, when we're the most efficient producers in the world, they can outbid us by $100 and $200.

I'm not an expert on trade, but I have read through that report and it lists a long list of practices within Japan that discourage the import of finished product and to encourage log, imports all the way from cartels to the way they handling their building codes to all sorts of things.

And it's really excellent background.

Senator HEINZ. Well, one of the answers is they protect their little timber mills.

Mr. R.D. HAYWARD. Absolutely. Absolutely.

Senator HEINZ. I don't know what our Government has been doing about it.

Mr. R.D. HAYWARD. What they're doing—well, they've done this study. I think that's a long-term project—I'm not a trade expert. That's a long-term trade issue, to work toward truly free markets for our products.

Our view as small timber-dependent people is that we can compete on a fair and open market on products with anybody in the world. But this is not, in our view, a situation on these logs, where we have that opportunity.

Senator HEINZ. Yes.

Mr. Chairman, could I continue for one additional minute?

Senator SARBANES. Sure.

Senator HEINZ. When I was in Japan in April, I had occasion to meet the brother of a very old friend of mine, whose Japanese, who bought, actually entered into a joint venture with an American timber mill in California in order to prove that it would be possible for Americans to actually market successfully finished timber in Japan.

And there were two parts to it that weren't easy. The first part is what you might expect. There were a lot of trade barriers, there were a lot of problems getting the lumber in—the product in, because this was plywood and other mill products.

The second problem was that it took a lot of work with the mill to make a product that was saleable in Japan. The products that were made from our mills just weren't—and it turned out for good reason—weren't what the Japanese really wanted. And once the mill learned that the Japanese really did have solid reasons in most instances for what they wanted and made it that way, they were quite successful.

So there may be a problem there that we don't recognize.

Senator SARBANES. Mr. Frampton, we're going to turn to you now. But, before I do that, I want to just put a hypothetical question to Mr. Hendricks, before we get away from the Association of Port Authorities. A very hypothetical question, I understand.

From the point of view of the Port Authorities, if you took all of the lumber that was being exported as raw logs and turned that lumber into finished wood product and exported the finished wood product, what would the impact of those two different situations be on the sort of economic activity and receipts of the Port-related activities?

In other words, you're taking a fixed amount of lumber. You export the raw product. Take the same fixed amount of lumber, you move it from raw product into finished wood product, and then you export that finished wood product.

What is the impact of those two situations on the economic activity of the Ports and the people who work at the Ports?

Mr. HENDRICKS. Let me—that is a very astute question and I'm sorry I didn't touch on it before in my statement. But, the basic situation is that the activity surrounding movement of logs is not nearly as efficient as the movement of finished products has grown.

One of the best things that's happened to the Pacific Northwest, in fact has been development of a very efficient movement for finished products into the overseas markets.

And that has been to the detriment, quite frankly, of some of the ports, such as mine, and some of the labor groups, such as the Longshoremen, because it does not take anywhere near, and I'm just going to say hypothetical around, it would probably take something in the magnitude of 10 percent of the labor to do the lumber versus what it would do to load logs.

It's considerably different.

The other thing that's happened is that the transportation system, as you know, on the East Coast and the Gulf and the West have developed into hubs, transportation hubs. And the economics surrounding that mean that finished product that are manufactured today in my community and are being shipped into the export markets that we've just been discussing, and they go every day, they're going to the ports of Seattle and Tacoma where the load centers are.

And there's not much that my port can do economically, short of subsidizing that ship call in some way, to be able to turn that around. So it has a very major effect and it has a dislocation also of where the work is.

Senator SARBANES. Accepting that latter point, and that's a problem between ports, but looking at it from the point of view of American ports generally, does the export of the finished product bring a greater return to the port than the export of the raw product?

Mr. HENDRICKS. No, I don't think it would be significantly different to the port itself. In fact, in our case, the log movements probably provide better revenue to us than the equivalent lumber movement would be to some of the competing ports.

Senator SARBANES. Well, I've always been under the impression that the movement of general cargo is a more lucrative port activity than the movement of, in effect, bulk or raw cargo.

Mr. HENDRICKS. In some commodities, that is true.

Senator SARBANES. Perhaps it doesn't work in the lumber business.

Mr. Frampton, why don't you go ahead.

STATEMENT OF GEORGE T. FRAMPTON, JR., PRESIDENT OF THE WILDERNESS SOCIETY

Mr. FRAMPTON. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you on behalf of the Wilderness Society and its 350,000 members across the country.

One of the highest priorities of the Wilderness Society today is to try to develop strategies that will allow us to save the remaining old growth forests on Federal lands in Oregon and Washington and, at the same time, protect jobs and move to a sustainable second growth timber industry there.

And I want to try to respond to your question of a number of other witnesses about why there is an intimate connection between those goals on the one hand and the subject of this hearing.

Today, the timber industry in Oregon and Washington is producing more board feet of product, raw and manufactured product, than it was 10 years ago. But, jobs are down 15–20 percent.

Now, the timber industry likes to blame spotted owls and environmentalists for those job losses. But there's no credible evidence that environmental constraints have had any impact on jobs in the last decade. The real culprits are technological change and log exports.

Technological change we want to encourage because technological change is bringing us a more productive, more efficient and more competitive timber industry. Indeed, an industry which, if we could deal effectively with the non-tariff barriers that Senator Heinz referred to, Japan and other Pacific Rim countries would make for widely-expanded markets for very efficient industry manufacturing high-value added products.

This is something we want to encourage. And as timber supply falls from both private and Federal lands in the Pacific Northwest, as it inevitably will, technological change is going to continue and jobs are going to be decreased further in the next 30–40 years.

This is something we want to encourage.

Log exports, on the other hand, are something we want to do something about. In 1988, we exported about 30 percent of Oregon's wood products to the Pacific Rim, about 25 percent of the total production in Oregon and Washington. And estimates of job losses go to 10,000 jobs or more.

We are today one of the two countries in the world that exports any significant amount of raw log material without any kinds of barriers, tariffs or taxes. And, basically, we are treating ourselves like an under-developed country.

Now, why is that putting pressure on old growth forests?

Let me see if I can explain why the legislation that Senator Packwood has sponsored not only has some important job benefits but some important environmental benefits, as well.

The timber industry in the Pacific Northwest is in the middle of the most important transition in its history. It is going in the next 15 or 20 years to be a very different industry. It is going to be an industry which is smaller, more efficient and which is only cutting second growth logs.

We are here today (left hand being held up), we are a mixed old growth, second growth timber industry. And 20 years from today (right hand being held up), we are going to be here. No more old logs are going to be cut because all the old trees between now and 20 years from now are either going to be cut or they're going to be set aside in some protective scheme of some kind or another. That's inevitable.

So, the choice facing us is how do we get from A to B? Do we get there on a path that liquidates all the remaining unprotected old growth? Or do we get there on a path that protects most of it?

Now, the political and economic reality is that, if we want to get there on a path that protects most of the small remaining irreplaceable old growth forest we have, we're going to have to do that in a way that protects a lot of jobs in the transition period in the next 15 to 20 years.

And log exports are key to that because if we continue to hammer logs overseas, it means that the demand for those remaining old growth logs there's going to be a tremendous fight over in the next decade is going to be much, much higher.

And that's the principle. It's this transition where we're either going to save this old growth or cut it all down—what's remaining, that's not protected in Parks and Wilderness Areas—that's the period that we have to look at and that's the period during which trying to do something about log exports is going to be key to the environmental issues involved.

What can we do?

No. 1, enact this legislation. I think other witnesses have referred to the fact that this is not bad forest policy, the GATT conservation provisions dealing with exhaustible natural resources are there.

More important, these are public resources, public timber. The Government, both the State and Federal Government don't have to allow this timber to be cut at all. If it's cut and sold to private enterprises, it should be cut and sold in a way and with conditions that it's used primarily to produce American jobs and American manufactured value-added products for foreign markets.

No. 2, close substitution loopholes.

No. 3, try to deal with the tariff and non-tariff barriers in the Pacific Rim countries that are hindering the export of manufactured products.

And, beyond that, I want to suggest in closing that there is something else that no one here has addressed. And that is the question of what the timber industry is prepared to do to help protect jobs in the Pacific Northwest with respect to exports from private lands.

None of these bills deal with private lands—not yet. But, as a number of witnesses mentioned, there are petitions for emergency Commerce Department action that would restrict timber imports from private lands.

What is the timber industry prepared to do to protect jobs and trees in the Pacific Northwest?

Is the timber industry prepared to have a voluntary export, raw log export quota in the next five years?

Is the timber industry prepared to get together and see what can be done voluntarily, to avoid government action?

The Japanese automobile manufacturers do it. Is the timber industry prepared to do it?

The Wilderness Society is going to propose as part of the overall package that Congresswoman Unsoeld spoke about earlier, that a part of the total program to save old growth for us in the Pacific Northwest are voluntary, significant voluntary export quotas by the timber industry on old growth raw logs that are shipped to Japan and Pacific Rim countries.

Is the industry prepared to do that to protect jobs in the Pacific Northwest?

Thank you, Mr. Chairman.

[The complete prepared statement of George T. Frampton, Jr., follows:]

THE WILDERNESS SOCIETY

TESTIMONY OF GEORGE T. FRAMPTON, JR., PRESIDENT OF THE WILDERNESS SOCIETY ON S. 745 AND S. 755 BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY OF THE U.S. SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS, NOVEMBER 7, 1989

Mr. Chairman. I am George T. Frampton, Jr. President of The Wilderness Society. I appear today on behalf of the 330,000 members of The Society in support of S. 754 and S. 755 to allow states to restrict the export of unprocessed logs from state lands and make permanent the federal ban on the export of raw logs from federal lands.

These bills are necessary because the timber industry and federal resource agencies have nearly exhausted our virgin forests and have not aggressively created jobs and value added in finished wood products. Instead the emphasis has been on the rapid conversion of forest to satisfy a boom-and-bust industry that shows little regard for workers and employment stability.

The Society's work on the economic and ecological consequences of federal timber management in the Pacific Northwest is particularly relevant to the enactment of Senator Packwood's bills. There are intense pressures placed upon public forest lands in the Pacific Northwest. The export of raw logs from state and private lands is contributing to the conflict. Exporting logs from public lands make no sense when Northwest timber workers are losing their jobs because of the failure to invest in high value added wood products in the region.

Over the last two years the timber industry in the Pacific Northwest has been blaming the spotted owl for the loss of timber jobs in the region. The facts are that there are several reasons for the decline in timber jobs but environmental restraints are not among them. The two reasons are mill modernization and log exports. Between 1979 and 1987 the timber industry in Oregon and Washington reduced its work force by sixteen percent primarily because of technological advances in the forest products industry. According to economic analysis prepared by the U.S. Forest Service, this trend of declining jobs due to mill

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modernization will continue into the foreseeable future. Unless action is taken by the forest products industry to create new markets in finished products there will be 50% fewer jobs in the industry by the year 2040.

Log exports are another major source of job loss. In 1988 alone 30% of the logs cut in Oregon were sold--unprocessed by American workers--to foreign countries to be made by foreign workers into finished products. What would the value of these exports have been if forest products workers in the Pacific Northwest had worked those logs into finished product for the Japanese to buy?

Mr. Chairman. The skilled Pacific Northwest forest products worker is being displaced by a short sighted timber policy that prohibits the states from choosing to export or not to export their raw materials. The fact is the Pacific Northwest is being treated as an economic colony of the Far East nations. It is estimated that tens of thousands of timber workers in the States of Oregon and Washington may have lost their jobs due to the dramatic increase in export of raw logs over the last couple of years. Between 1987 and 1988 exports of raw logs rose by 20% from 3.7 billion board feet to 4.2 billion board feet. This recent dramatic increase in exports has even caused the U.S. Forest Service to question whether some logs from federal lands are making their way illegally into the export market. The recent arrest of three men in Montana on charges of diverting more than 500,000 board feet of national forest timber for illegal export is cause for alarm.

What can be done to protect the jobs of Pacific Northwest timber workers? The first step is to pass S. 754 and S.755.

S. 754 would make permanent the ban on export of raw logs from federal lands that is now imposed annually by the Congress in the appropriations process. S. 755 would allow the states to determine for themselves whether or not they want to export raw logs from state owned lands. Under a 1984 Supreme Court decision states are prohibited from making such decisions to protect their resources.

Passage of these two bills by the Congress would send a signal that this Government <u>will</u> take steps to protect its human and ecological resources in the Pacific Northwest. States, like the federal government, would have the necessary authority to prohibit the export of unprocessed logs from state lands.

The second step is to close the substitution loophole that allows some major forest products companies to export their logs from private lands and then obtain logs from federal lands to meet their domestic market needs. Timber companies that think nothing of shipping raw logs and American jobs overseas should

not be allowed to bid for federal timber to meet their domestic market need. These firms are able to profit by exporting logs they own and then meet their mills raw material requirements by purchasing a greater share of federal timber. This is economic bullying of the smaller Pacific Northwest mills and it must be stopped if we are to preserve long-term timber jobs in the region.

The third step is for the Congress to direct the United States Forest Service to step up its investigations and prosecution of fraudulent export of logs from federal lands. The Forest Service should allocate sufficient law enforcement resources to protect the illegal exploitation of the public's resources. Using existing procedures the Service does track a log from the time it is cut on federal land to the mill and through the manufacturing process. The Forest Service should vigorously enforce their regulations regarding timber from federal lands. The American people and the Pacific Northwest deserve to know that logs grown with their tax money are going to support American Jobs.

The fourth step is to mount a new campaign to seek <u>voluntary</u> quotas on the export of raw logs from private lands and expand the export of finished wood products to the Far East. This step calls for the timber industry and the federal government to work together for the benefit of timber jobs.

On the timber industry side of the ledger, a voluntary quota system by the industry is the first action that needs to be taken. The quota system should reduce exports of raw logs to their 1970 levels (about 3.2 billion board feet). This action would free up 1 billion board feet of timber that then should be redirected to the domestic timber market and according to Wilderness Society calculations could save up to 5,500 jobs in the states of Oregon and Washington.

It is important that the timber saved by the quota be put up for bid in the domestic market so that local mills can compete for the supply and keep their employees working. The initial quota reducing exports to 1970's levels should be followed by a three year program by the timber industry to reduce exports by an additional 10% a year for three years to a level of no more than 2.3 billion board feet of raw logs being exported from the Pacific Northwest.

In addition the timber industry should embark on a program of mill modification to make finished wood products to be sold in the Far East. With the help of the U.S.Department of Commerce the timber industry should study foreign markets in order to meet foreign standards and consumer acceptance.

In conjunction with the industry's efforts to expand the

foreign trade of U.S. finished wood products, the federal government should launch a major effort to break down the numerous trade and cultural barriers to manufactured wood products that are "Made in America". Congress should direct the Office of the United States Trade Representative to review all foreign trade barriers to U.S. wood products. Currently there are several Far East nations that restrict the importation of U.S.-made wood products. The Federal Government should begin a process to remove such barriers in conjunction with the re-tooling of the Pacific Northwest timber industry to sell finished products overseas.

In conclusion the two bills before this Subcommittee are a good start to creating jobs in the timber industry. However, Congress cannot do it all. The timber industry must (1) institute a voluntary export quota system that will immediately reduce exports to 1970's levels; (2) redirect the timber saved from the export market to the domestic market and (3) invest in products that can be sold overseas. Also, the federal government must begin a concerted effort to break down foreign trade and cultural barriers to U.S. finished wood products made for their markets.

Mr. Chairman. If there is a demand for 4.3 billion board feet of our wood fiber in the Far East, then why should not half of that demand be satisfied with product manufactured by American workers in the Pacific Northwest to meet this demand. We must free ourselves from this economic colonialism. The United States is now one of the only countries in the world that continues to allow export of its raw logs. British Columbia has imposed a tariff that is designed to prevent the export of raw logs in order to protect jobs. American resources should first be used to create jobs for our workers and then satisfy the demand for quality American made goods overseas. The enactment of S. 754 and S. 755 will go a long way in achieving this goal.

Thank you Mr. Chairman.

Senator SARBANES. Thank you very much.

Now we'll go to the two Labor Representatives who are here—Glen Ramiskey, the President of the International Longshoremen and Warehousemen's Union, Local 24 of Aberdeen, Washington. And then, after we hear from Mr. Ramiskey, we will turn to Wayne Pierce, the General Treasurer and Director of Legislation for the United Brotherhood of Carpenters and Joiners of America.

Mr. Ramiskey.

STATEMENT OF LEN RAMISKEY, PRESIDENT, INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION, LOCAL 24, ABERDEEN, WA

Mr. RAMISKEY. Thank you, Mr. Chairman and Subcommittee member. I have written testimony that I would like to submit for the record.

Senator SARBANES. The full testimony will be included in the record.

Mr. RAMISKEY. My name is Glen Ramiskey. I'm here today to represent James Herman, International President of the ILWU and my local. I am a treasurer for Washington Citizens for World Trade, and also a member of the Washington State Commission on Old Growth Alternatives for State Forest Trust Lands.

We in the Port communities are familiar with the debate surrounding timber supply and log exports. The ILWU has always held the position that we would prefer to ship finished wood products. And we appreciate the desire of our fellow workers in the mills. Neither one of these bills by setting a ban would accomplish that goal.

We have been involved in programs to look at timber supply in light of the spotted owl and the environmental issues. Neither one of these bills would accomplish that goal.

Speaking to Senate Bill 755, the State Ban, out of the volume of State timber harvested, 12 percent from Washington and about 6.8 percent from Oregon, that amount is insignificant to have an impact on the regional timber supply, but would have a devastating and severe impact on cargo traffic through those port communities.

That timber from State lands is addressed in S. 755, is also an important source of revenue for schools, counties, universities and for forest management, which I'm sure the panelist from the D&R in Washington State will address.

Mr. Chairman, as far as Senate Bill 754, the Federal ban on substitution, our position is, frankly, the Federal ban is in existence. Federal logs are not exported. And on a daily basis in the community I'm from and from other communities, the practice of substitution happens regularly.

An example, ITT Rainer, which has pulp mills, are saw mills, and is a log exporter may take cedar logs from their lands and either sell them or trade them to a shake mill in exchange for, say, hemlock logs off of Federal lands that they could run through their mill

It is a practice for the most efficient movement of the log commodity around the forest products industry in that region.

Both S. 754 and S. 755 will only penalize ports dependent on log exports. We do not have a monopoly on log supply in the world market. There are others that are ready, willing and able to step forward and fill that market niche that has been developed over the years. To name a few, New Zealand, Chile, the Soviet Union.

Washington State is the largest log exporter, and we can't lose sight of the fact that 60 percent of what is exported from Washington forest products-wise is finished forest products—lumber, logs, veneer, plywood, et cetera.

And the importance of log exports to us in these small port communities, this is its way to penetrate markets.

An example in the area I'm from in Gray's Harbor, we finally, after trying for a long while, have been successful in securing the long-term commitment to ship custom-cut lumber to Korea as a mix on a log ship. We'll be shipping both and have shipped one shipment, and it will continue, of logs and lumber mixed.

And it's important to us in those small communities because of all the pulp, plywood and lumber that's produced where I'm from, is moved to those load centers because of consolidation of cargoes, because of containerization and moved through other areas.

So we lack that work opportunity on our docks.

And I can't emphasize enough that this is my job, you know, and it's not only the mill workers' jobs that are at stake, but it's the jobs on the docks and the log yards, driving the trucks that are important to those coastal communities.

If I could leave you with the comment on the short supply petition that's being presented in front of the Department of Commerce, I would urge this Subcommittee to wait until the report comes out of the Department of Commerce on short supply.

And with all the rhetoric and numbers that are flying around, use the most current and objective information before there's legislative solution.

The lumber exports are increasing every day and this increase in the exports of not only lumber but other finished forest products has been accomplished without the assistance of protective legislation.

Once again, I want to thank you, Mr. Chairman, for allowing the ILWU to present our views.

[The complete prepared statement of Glen Ramiskey follows:]

TESTIMONY OF GLEN RAMISKEY, PRESIDENT OF

INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION LOCAL 24
(Aberdeen, Washington)

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY

U. S. SENATE BANKING COMMITTEE

NOVEMBER 7, 1989

Mr. Chairman and Members of the Subcommittee:

My name is Glen Ramiskey, President of the International Longshoremen's and Warehousemen's Union Local 24 in Aberdeen, Washington. I am here today representing ILWU International President James Herman who regrets that he is unable to be here to present this statement. I should state for the record that I am also the Treasurer of Washington Citizens for World Trade, a statewide organization committed to the expansion of U. S. international trade relations. I am also a member of the Washington State Commission on Old Growth Alternatives for Washington's Forest Trust Lands, which recently completed a study and a set of recommendations for the balanced management of state timberland.

The ILWU appreciates this opportunity to present its views on S.754 and S.755, and the issue of log exports. Because twelve port communities in the Pacific Northwest - Everett, Port Angeles, Tacoma, Aberdeen, Longview, Anacortes, and Olympia, Washington; Portland, Astoria, Newport, and Coos Bay, Oregon; and Sacramento, California - are heavily dependent on log exports for their livelihoods, our membership has a vital interest in the forest products industry of that region. No other constituency has a greater concern that the controversy now surrounding this industry be addressed in a way that is fair to all concerned.

The debate over log exports is a familiar one in the Pacific Northwest where we have grown accustomed to the ups and downs of the timber industry and the battles between mill owners and exporters over who gets the timber. For the mill owners, restrictions on log exports reduce the competition and drive down the cost of the wood. That has certainly been the case with logs from federal forests which cannot be exported. So, it's understandable that some mill owners would support additional restrictions on exports of state-owned logs since it would mean cheaper logs for their mills.

We in the ILWU have always emphasized that we prefer to load finished wood products rather than logs aboard ship since such work is usually more labor-intensive. We have no quarrel with the natural desire of our fellow workers in the mills to maintain and expand the export of finished products. In fact, we fully support this goal. We don't believe, however, that restrictions on log exports would help to achieve it.

Nor do we believe that a log export ban would solve the timber supply problem facing some of the mills in the Northwest. The preliminary listing of the "spotted owl" as a threatened species, and related lawsuits, have dramatically reduced the amount of federal timber for the mills. Because there are no

easy solutions available to deal with the problems the mills face, some have jumped to the conclusion that a log export ban might help.

Unfortunately, this is not the case. Nothing in these two bills would affect the volume of federal timber to be sold. If passed, these bills would merely shift the misery from one segment of the timber industry to another.

Not only would a log export ban not solve the underlying problem, it would create a whole bunch of new ones in the process.

S.755 would authorize states to impose restrictions on the export of logs harvested from state lands. But in the state of Washington, state lands provide only 12 percent of the volume of all harvested timber, and only 6.8 percent of total wood exports. In Oregon, these percentages are even lower. This bill would therefore not have any significant impact on the regional timber supply even though it would significantly reduce the cargo traffic of those ports which handle the state logs that are currently exported.

In Washington State, state timber sales provide an important source of revenue for specific state programs, primarily in education. If you ban log exports, you reduce the competition for the wood and that means less money for schools, counties, universities and other public entities.

S.754, which addresses logs harvested from federal lands, would make permanent the current ban on exports of those logs. Frankly, that's a non-issue. Those logs are already banned from export and as far as I know, there's no organized effort within the timber industry to lift the ban. Even though some of us might object to this trade restriction on philosophical grounds, it's history now and the industry has adjusted to it. Certainly we in the ILWU do not propose lifting that ban, especially in view of the turmoil this would create within the industry.

S.754 would also eliminate direct and indirect substitution of federal logs. As I understand it, the substitution regulations were developed in 1973 when the federal log export ban was imposed. The initial set of regulations on direct substitution were designed to "grandfather" in those 51 companies who were exporting their own timber and buying federal timber when the ban went into effect. Given that the regulations on direct substitution were designed to protect the interests of companies and individuals when Congress changed the rules of the game in 1973, it hardly seems fair to change the rules again.

Eliminating indirect or third party substitution makes no sense to me either, unless there is evidence that this so-called loophole is being abused. The third party substitution regulations were written, as I understand it, so that exporters and non-

exporters could trade logs to get the best mix for their mills. Again, these regulations do not allow export of federal logs. They merely allow some flexibility for buyers and sellers of timber so that they can get the maximum utilization of the wood.

Let me give you an example of how this works:

I live in the Grays Harbor area of Washington where "substitution" of federal and private logs takes place on a daily basis. In our area, an exporting company like ITT-Rayonnier for example, might sell or trade some of the cedar logs coming off their own lands to a shake mill for some hemlock logs coming off federal lands for their sawmill. This bill would prevent or at least discourage these types of log exchanges.

Periodically, we hear complaints in our area that some companies are abusing the privilege by increasing exports of their own timber and relying on federal logs to run through their mills. In 1983, the Department of Agriculture made this report following an inquiry into this practice by Senator Hatfield:

> "Almost every sale in the Northwest involves species, sizes or grades of logs which cannot be efficiently processed in the purchaser's manufacturing facility. The timber industry in this region has developed well-functioning log markets which permit the movement of logs to the sawmills, stud mills, veneer mills, pulp mills, or other facilities to which they are best suited. This free log market contributes greatly to the competitive strength of the Northwest timber industry. The functioning of these log markets would be seriously disrupted if constraints on the free movement of logs were imposed."

The General Accounting Office took a look at substitution again in 1985 and concluded that there were no apparent abuses of the system. This year, the GAO was asked to update the study. I would hope that this committee would wait to see the results of this study before stepping in to fix something that probably isn't broken.

S.754 would, in short, have a detrimental impact on the Northwestern wood processing industry, and like S.755, it would also penalize ports which currently depend on log exports.

It is important to emphasize, in addition, that neither of these bills would expand the export of finished products through their superficial tactic of reducing log exports, for the simple reason that the United States has no monopoly on the international log trade. It is obvious from the large number of participants in the international wood market that foreign buyers, to whatever extent they are deprived of U.S. logs, could and would turn to other countries which are eager to supply logs - which include Canada, the Soviet Union, New Zealand, and other countries in Latin America and Southeast Asia.

We also urge you to consider the positive impact log exports have had in the Northwest, not only for longshoremen, ports, and their communities, but for the wood processing industry itself. In the first place, log exports have been the only economic buffer for many communities during downturns in the

domestic housing market. In hard times, in fact, they have saved some communities from disaster.

Listening to the rhetoric of some of those who support a ban, you might get the impression that logs are the only export product going out of our ports. Nothing could be further from the truth. In fact, in the state of Washington, the largest log exporting state in the country - nearly 60% of the forest products we export are in the form of lumber, plywood, pulp, paper and other manufactured products.

In the 1970s and early 80s, as you may know, many U.S. wood exporters were having difficulty in penetrating the Japanese market which is by far the largest market for wood products on the Pacific Rim. This difficulty arose largely from differences in our product specifications. Now, almost all U.S. mills are capable of cutting to Japanese specifications and lumber exports have increased dramatically.

In 1987, lumber exports to Japan - the single largest consumer of U.S. wood products - increased by 38% in that year while log exports increased by only 16%. In 1988, according to the Department of Commerce, lumber exports increased by 25% while log exports again increased by only 16%. Over a 10-year period from 1978 to 1988, the value of softwood logs exported from Oregon and Washington has declined from 61 percent of total forest product exports to 38 percent; in volume, log exports

have increased by 29 percent over that period, while lumber exports increased by 210 percent.

In short, the industry is already shifting steadily in the direction of exporting more finished wood products and fewer logs without the help of protective legislation.

Finally, Mr. Chairman, I would like to comment on the pending "short supply" investigation of domestic timber by the Department of Commerce. We believe that an independent investigation by this neutral body is warranted given the rhetoric and controcersy that have surrounded this issue in recent months. Although we strongly oppose these two bills, we would urge this body, if only from the point of view of acting on the basis of the most current and objective information available, to defer any further legislative action at least until this study is completed early next year.

In conclusion, Mr. Chairman, we believe that the overall timber supply in the Northwest can and should be managed to the benefit of processors, exporters, and environmentalists alike. ILWU representatives are already participating in the planning and negotiation over forest allocation and preservation, and we will continue to assist this process in all possible ways. But to whatever extent harvesting access to public timberland may be reduced in the future, the economic

consequences of the reduction must be proportional to all of the members of the forest products industry. To try to cushion the impact on one sector by restricting log exports would injure not only ILWU members, other workers who depend on log exports and their communities, but the forest products industry at large.

Thank you again for giving us this opportunity to present our views.

Senator SARBANES. Thank you very much for your testimony. Mr. Pierce.

STATEMENT OF WAYNE PIERCE, GENERAL TREASURER AND DIRECTOR OF LEGISLATION, UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, WASHINGTON, DC

Mr. PIERCE. Thank you, Mr. Chairman. My name is Wayne Pierce and I serve as General Treasurer and Legislative Director for the United Brotherhood of Carpenters and Joiners of America. And I want to thank you for inviting us to testify today.

I have with me a couple of our in-house experts, Mr. Dennie Scott, and Alan Hal, in case there are any technical questions you would like to ask later.

Mr. Chairman, our Brotherhood is a trade union with 600,000 members in the United States and Canada. Our members are employed in construction, installation of heavy machinery, mill rights, ship building, furniture, cabinet, mill work, logging, lumber, plywood and other wood manufacturing jobs.

We have over 40,000 members in Washington and Oregon. Our union strongly supports S. 754 and S. 755, and we ask that members of this subcommittee approve both measures.

The log export issue is a simple one, despite efforts by some to make it appear highly technical and complex. It boils down to a point of principle concerning a choice about how we are going to manage timber resources owned by the public.

Do we want our public lands to be tree farms to supply foreign countries with raw materials? Or, do we wish to promote more value-added manufacturing to achieve the numerous benefits that that approach creates for this country.

Our union feels that for elected officials charged with determining public policy, the answer is clear and obvious.

The first priority of timber resources grown and harvested from public lands should be to provide maximum benefit to the broadest group of U.S. citizens possible rather than to Asian manufacturers.

Softwood log export volumes from the Pacific Northwest have been at extremely high levels for many years. As measured from U.S. Custom Districts in Oregon and Washington, log exports from public and private lands have been above 2 billion board feet in 9 of the last 10 years.

Log exports grew to 3.68 billion board feet in 1988, and projections indicate 1989 volumes will go even higher.

To put these numbers in better perspective, over the last 5 years, log exports have averaged out at about 21 percent of the total timber harvest from Washington and Oregon.

Senate bill 754 is needed in order to place a law on the books making the prohibitions against exporting unprocessed federal timber permanent.

This is a superior approach to the one now utilized, which depends on a rider to the Appropriations Bill each year.

Our union supports the strengthening of S. 755 with directives to the administering agencies to eliminate the substitution of Federal timber for logs exported from private corporate lands.

For example, the current rules do allow substitutions for volumes up to and slightly above what's called historical levels. There is no justification for allowing substitution based on historical levels.

Operators should be denied Federal timber sales if they elect to export any of their privately-owned timber.

Current regulations do not prohibit the primary purchaser from transferring Federal timber to a third party, who in turn may export the logs.

We applaud Senator Packwood's efforts to address this problem with the language obligating the purchaser to secure written guarantees from subsequent third party purchasers indicating they will comply with the log export prohibitions.

The Pacific Northwest is entering a critical period of timber supply decline. Numerous studies—Beuter, United States Forest Service, Wideman document the trend.

One major reason for the projected downfall of timber harvests during the next 30–40 years is the heavy cutting that occurred on industrial corporate forest lands.

It is our view that much of this fast harvest was stimulated by the lucrative log export market over the last 25 years.

One study serves to illustrate the magnitude of the projected downfall problem. Between 1988 and 2020, this study projects that harvests from the U.S. Pacific Coast region will fall by 17 percent. This fact has not been lost on the largest forest products corporations. Several magazines have reported that Georgia Pacific and Weyerhaeuser are negotiating presently with the Soviet Union to log that country's forests in exchange for setting up saw mills.

The articles point out that this overture was promoted because of the timber supply crisis in the United States

Weyerhaeuser has been the largest corporate log exporter over the last 25 years. It looks like two companies that probably made a considerable contribution to the timber supply downfall are attempting to fill the gap with wood products imported from the Soviet Union.

It is of particular interest that the Soviet deal, if concluded, will result in lumber shipments to the United States, not raw logs.

As a consequence of shrinking supply, the forest products industry will be going through an extremely difficult transition. Much of the change will resemble turmoil as intense battles break out over the best use for a diminished supply.

Indeed, the pressures have already caused bid prices for public timber sales to climb at a radical rate.

Our written testimony documents these facts. Log exports make the timber supply crunch worse, especially during this period. It is necessary to view log exports as a way to mitigate the disruptions that will be caused by declining timber harvest over the next two decades.

Purchasing down log export is also part of a broader strategy to make the highest and best use of our public timber base while striving for more manufacture of end use wood products.

Public policy should help to speed the trend toward more value-added manufacturing, so the negative disruption and dislocations can be partially avoided.

The employment base for the Pacific Northwest forest products industry has been declining since the late 1970s.

Mr. Chairman, we ask you to help us keep the jobs for American workers. We have submitted the numbers of jobs lost each year in Washington and Oregon over 10 years.

Forty-nine thousand from 1977 to 1987. The rather consistent, long-term trend downward is explained by several factors: increased automation, conversion to second growth timber, and the failure to curtail the volume of log exports.

For the record, we have noted the increase in lumber production while employment has declined.

Another way to examine employment trends is to calculate the number of direct force industry jobs created from annual timber harvests. Total timber harvested in Oregon and Washington during the comparable peak demand years of 1978 and 1987 was 14.748 million board feet; and 15.252 million respectively.

In 1978, this volume created one job for every 92,700 board feet of harvest. By 1987, just 9 years later, it took 114,700 board feet of harvested timber, a 27 percent increase, to generate one fulltime job in the wood products and paper industry.

This means that due to, one, technological change; two, transition to second growth timber; and, three, the failure to maximize value-added manufacturing opportunities, the region achieves a lower job creation benefit for each thousand board feet of timber harvested than was the case several years ago.

Another study by Flor and McGinnis for the Pacific Northwest Research Station of the Forest Service concludes that if log export restrictions were imposed on timber harvested from Oregon State lands, the State would achieve a net gain of at least 700 jobs in that the timber harvest in Oregon from State lands is only about one-fifth the volume harvested from Washington State lands. The expectations would be that a net gain of about 3,500 jobs could be achieved in Washington if a domestic processing rule were adopted there.

And I submit that it's probably even higher than that.

That is why it is also important to pass S. 755; the debate on how States should manage timber lands under their respective jurisdictions should be carried out at the State level.

The bottom line cannot always be how much profit is available for a single corporation or big business. It is more important to consider how many U.S. workers are employed or could potentially be employed.

We should concern ourselves with producing more high-paying quality jobs for American workers, much like the Japanese do. After all, the Federal lands where timber is grown belongs to the people of our great country. Then shouldn't those lands be providing jobs for Americans rather than for workers in other countries?

And I want to thank you, Mr. Chairman, for allowing our Union to testify today.

[The complete prepared statement of Wayne Pierce follows:]

STATEMENT OF THE UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA BEFORE THE SENATE SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY CONCERNING S.754 AND S.755 NOVEMBER 7, 1989 WASHINGTON, D. C.

My name is Wayne Pierce and I serve as General Treasurer and Director of Legislation for the United Brotherhood of Carpenters and Joiners of America at 101 Constitution Ave., N. W., Washington, D. C. 20001.

The United Brotherhood of Carpenters is a trade union with 600,000 members in the U. S. and Canada. Our members are employed in construction, installation of heavy machinery (millwrights), shipbuilding, furniture, cabinet/millwork, logging, lumber, plywood and other wood manufacturing.

Our union supports S.754 and S.755 and we ask that members of this subcommittee approve both measures.

The log export issue is a simple one, despite efforts by some to make it appear highly technical and complex. It boils down to a point of principle concerning a choice about how we are going to manage timber resources owned by the public.

* Do we want our public lands to be tree farms to supply foreign countries with raw materials or do we wish to promote more value-added manufacture to achieve the numerous benefits that that approach creates for <u>this</u> country?
* Do we want to export unprocessed public timber, grown with public investment, to provide income and jobs for Far Eastern manufacturers or do we want to expand income and job opportunities for workers and communities in the U. S.?
* Do we want to manage our public forests for the long-term interests of U. S. citizens, or simply for the short-term profit objectives of log exporters?

Our union feels that, for elected officials charged with determining public policy, the answer is clear and obvious. The first priority of timber resources grown and harvested from public lands should be to provide maximum benefit to the broadest group of U. S. citizens possible, rather than to Asian manufacturers.

Softwood log export volumes from the Pacific Northwest have been at extremely high levels for many years. As measured from U. S. Customs Districts in Oregon and Washington, log exports from public and private lands have been above 2 billion board feet in nine of the last ten years. Log exports grew to 3.68 billion board feet in 1988 and projections indicate 1989 volumes will go even higner. To put these numbers in better perspective, log exports, over the last five years, have averaged out at about 21 percent of the total timber

harvest from Washington and Oregon.

S.754 is needed in order to place a law on the books making the prohibitions against exporting unprocessed federal timber more permanent. This is a superior approach to the one now utilized which depends on a rider to the appropriations bill each year.

Prohibitions against the export of raw unmanufactured timber harvested from federal lands west of the 100th meridian (from North Dakota south through Texas) have been in effect since 1968, first through rules issued by the Secretaries of Agriculture and Interior and then by what became known as the Morse Amendment -- named after Senator Wayne Morse of Oregon. Thus, S.755 takes a much needed step toward removing the federal log export ban from the uncertainties of the annual budgetary process and gives the agencies the confidence that this represents a long-term timber management policy.

Our union supports the strengthening of S.755 with directives to the administering agencies to eliminate the substitution of federal timber for logs exported from private/corporate lands. We feel the present rules (36CFR 223.160) are inadequate. For example, the current rules do allowsubstitution for volumes up to and slightly above "historical" levels. There is no justification for allowing substitution based on "historical levels." Operators should be denied federal timber sales if they elect to export any of the privately owned timber.

In addition, the regulations define tributary areas for the purpose of setting up areas from which substitution is prohibited. The theory is that a tributary is an area that logically feeds nearby mills with timber. If, within that rather small area, an operator exports private logs beyond historical levels, he is prevented from purchasing federal timber <u>from within the same area</u>. It is our view that the definition for tributary is much too limited, considering the economics of the industry today. Today, logs are routinely moved long distances from the harvest site to the mill. Long hauls are partially justified because of the much higher value of the stumpage than was the case when the "tributary" concept was inserted in the regulations in the 1970's.

The third major problem with present substitution rules is that they apply only to primary purchasers buying directly from the U. S. Forest Service. The regulations do not prohibit the primary purchaser from transferring federal timber to a third party who, in turn, may export the logs. It would appear that S.754 addresses this problem with the language in Sec.3(b) concerning the obligation of the purchaser to secure written guarantees from subsequent third party purchasers indicating they will comply with the log export prohibitions. We compliment the drafters for attempting to close this rather large loophole.

The Pacific Northwest is entering a critical period of timber supply decline. Numerous studies (Bueter, U.S.F.S, Widman) document the trend. One major reason for the projected downfall of timber

harvests during the next 30 to 40 years is the heavy cutting that occurred on industrial corporate forest lands. It is our view that much of this fast harvest was stimulated by the lucrative log export market over the last 25 years.

Another contributor has been the conversion from old growth forests to replanted second growth. Solid reforestation regulations were not on the books until the 1950's and 60's and as a result, trees planted in this era will not be ready for harvest until 2010 or 2020. We must simply wait for that young timber to mature.

In addition, the U.S.F.S. will be scaling back on the volumes of timber that go into their timber sales plans in order to meet a whole array of sustained yield and multiple-use objectives mandated by law. Finally, there is intense pressure from the environmental community to restrict harvesting on federal lands and to set aside additional acreage in the wilderness system.

One study (Widman) serves to illustrate the magnitude of the projected downfall problem. Between 1988 and 2020 this study projects that harvests from private lands in the U. S. Pacific Coast region will fall by 10 percent while harvests from public lands will decline by 25%.

This fact has not been lost on the largest forest products corporations. Several magazines have reported that Georgia-Pacific and Weyerhaeuser are negotiating with the Soviet Union to log that country's forests in exchange for setting up sawmills. The articles point out that this overture was prompted because of the timber supply crisis in the U. S.

Weyerhaeuser has been the largest corporate log exporter over the last 25 years, while Georgia-Pacific carries the reputation of being a fast harvest-minumum reforestation company. Two companies that probably made a considerable contribution to the timber supply downfall are attempting to fill the gap with wood products imported from the Soviet Union. It is of particular interest that the Soviet deal, if concluded, will result in lumber shipments to the U. S. -- not raw logs.

As a consequence of shrinking supply, the forest products industry will be going through an extremely difficult transition. Much of the change will resemble turmoil as intense battles break out over the best use for a diminished supply. Indeed, the pressures have already caused bid prices for public timber sales to climb at a radical rate. Listed below are prices paid for U. S. Forest Service Douglas fir sales on the west side of the Cascade mountain range from 1986 to 1989.

	Douglas Fir West Side Price per Thousand
Second Quarter 1986	$158.52
Second Quarter 1987	163.94
Second Quarter 1988	254.25
Second Quarter 1989	357.00

Log exports make the timber supply crunch worse. Especially during this period it is necessary to view log exports as a way to mitigate the disruptions that will be caused by declining timber harvests over the next two decades. Phasing down log exports is also part of a broader strategy to make the "highest and best use" of our public timber base while striving for more manufacture of end use wood products. As the Widman study noted, "These changes will shift the industry away from commodity orientation toward more value-added production, in order to obtain maximum value from a depleting raw material base." Public policy should complement this trend, and indeed, help to speed it along so the negative disruptions and dislocations can be partially avoided. S.754 and S.755 represent major steps to achieving that objective.

The employment base for the Pacific Northwest forest products industry has been declining since the late 1970's. Employment figures collected from state employment agencies appear below:

Employment in Oregon and Washington Forest Products Industry 1977-87

(in thousands)

	Lumber and Wood Products	Paper and Allied Products	Total
1977	133	28	161
1978	136	23	159
1979	134	26	160
1980	116	28	144
1981	108	28	116
1982	95	26	101
1983	104	25	129
1984	108	25	113
1985	101	25	106
1986	101	25	106
1987	106	26	112
1988	108	25	133

While some of the delines, most notably the severe drop during the early 1980's, were caused by a severe and prolonged depression in the industry, the rather consistent long-term trend downward is explained by several factors.

The introduction of newer automated wood manufacturing mills has reduced manpower needs. The switch to second growth timber which is straighter, more uniform in size, and contains less defective wood has also been a factor contributing to employment declines. It takes fewer workers in a sawmill to process second growth timber because there is less need to divert lumber to resaw operations.

It is interesting to note that while employment in the industry has declined, output has actually risen. Listed below, for example, is lumber output for Oregon and Washington from 1977 through 1987.

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Lumber Production in Oregon and Washington, 1977-87
(million board feet)

1977	11,540
1978	11,566
1979	11,153
1980	8,945
1981	8,358
1982	7,741
1983	10,400
1984	10,899
1985	10,630
1986	12,281
1987	13,491

1978 and 1987 represent peak demand years. Lumber production was 17 percent higher in 1987 than it was nine years earlier.

Another way to examine employment trends is to calculate the number of direct forest industry jobs created from annual timber harvests. Total timber harvested in Oregon and Washington during the comparable peak demand years of 1978 and 1987 was 14,748 million board feet and 15,252 million, respectively.

In 1978 this volume created one job for every 92,700 board feet of harvest. By 1987, just nine years later, it took 114,700 board feet of harvested timber (a 27% increase) to generate one full-time job in the wood products and paper industry.

This means that due to 1)technological change, 2) transition to second growth timber and, 3) the failure to maximize value-added manufacturing opportunities, the region achieves a lower job creation benefit for each thousand board feet of timber harvested than was the case several years ago.

Further employment declines are inevitable as future timber harvest declines serve to compound the factors referred to above.

Thus, it is imperative that we quicken the pace toward a log export phase-down to counter some of those job losses.

Those who oppose log export restrictions have argued that there would be little, if any, net job creation if log exports were phased down. They argue that job losses connected to log exports (i.e., in logging, trucking, and log loading) would equal or exceed job gains derived from domestic processing.

While any such analysis is extremely difficult it is our view that demand and price for public timber will remain high for the long-term future despite temporary cyclical variations. A number of studies point to increasing wood fiber demand in the U. S. and in the world.

Some of the employment decline in logging and trucking resulting from anticipated harvest reductions will be absorbed in processing plants. Further, it appears longshoring jobs are declining anyway at

log loading facilities as exporters use barge-mounted cranes to load logs into ships directly from the water, thus avoiding the dock facilities.

Beyond these common sense points a recent study by Rufolo, Strathman and Brontman at Portland State University states that a shift from exports to lumber production results in a net increase in final demand employment. Their conclusion:

"If exports are restricted, more logs would be processed into other outputs. The increase in processing is expected to cause an increase in employment in the region...."

Another study by Flora and McGinnis for the Pacific Northwest Research Station of the Forest Service (February 1989) concludes that employment in Oregon would decline by about 880 persons in exporting and increase by about 1,580 in domestic use, a net gain of 700 jobs, if the state enacted log export restrictions from state-run forests.

In that the timber harvest in Oregon from state lands is only about one-fifth the volume harvested from Washington state lands, the expectation would be that a net gain of about 3,500 jobs could be achieved in Washington if a domestic processing rule were adopted there.

That is why it is also important to pass S.755. The debate on how states should manage timber lands under their respective jurisdictions should be carried out at the state level.

Senator SARBANES. Thank you very much, Mr. Pierce.

There's one thing. You said that, as you understood it, the perspective arrangements that are being discussed with the Soviet Union would result in the shipment of what to the United States?

Mr. PIERCE. Finished products.

Senator SARBANES. So that we would be importing finished wood products from the Soviet Union while we continue to export raw logs to the Pacific Rim?

Is that your perception of the situation?

Mr. PIERCE. Right. And the fact that, if we ship raw logs over there, we know it's not coming back in raw logs. It's coming back in some other form. And that's products that are going to throw more Americans out of jobs.

Senator SARBANES. OK. What we will do now is I'm going to take Mr. Taylor next, whom I understand has a sort of a somewhat broader view of this issue. And then we'll take the two representatives that are here from the State of Washington, Mr. McElroy and Mr. Nafziger.

So, Mr. Taylor, we would be happy to hear from you now.

STATEMENT OF RANDY TAYLOR, DOMESTIC SALES MANAGER, INTERNATIONAL VENEER CO., INC., COLDWATER, MI, REPRESENTING INTER-INDUSTRY LOG EXPORT ACTION COMMITTEE

Mr. TAYLOR. Thank you. Mr. Chairman, I'm Randy Taylor, Domestic Sales Manager for International Veneer Company of Coldwater, MI.

I'm speaking for our company and the Inter-Industry Log Export Action Committee, a coalition of hardwood veneer and lumber manufacturers.

We support S. 754 and S. 755, but recommend that the Federal log export ban also include unprocessed timber from the Eastern National Forests.

The main question raised by S. 754 is whether or not the year to year log export restrictions ought to be part of permanent law. We think they should.

Including a legislative provision within an appropriations bill is usually a temporary solution. Since identical language has been included in 17 consecutive appropriations bills, we think that it's time to permanently ban the export of timber from Federal lands. It is "in our opinion" clearly the right thing to do.

In addition, we think there are compelling reasons to restrict the export of timber from Federal lands both west and east of the 100th Meridian. As outlined in our written statement, the origins of the 100th Meridian delineator are lost somewhere in a legislative attic locker.

Rather than speculate about where Senator Morse came up with this idea when the language was drafted 21 years ago, we think it's important to focus on whether or not limiting the log export ban to the western States is still appropriate.

We submit the following arguments in support of our position favoring the log export ban on all unprocessed timber originating from Federal lands.

First, there are no valid timber supply differences between East and West. Log availability on both sides of the 100th Meridian is a function of mill capacity and log prices. Whenever foreigners can pay more for timber than domestic producers, logs leave the country.

That is happening to us at the present time. Timber availability is a constant concern. The volume of unprocessed hardwood timber exported from the United States is enormous, growing every day and definitely threatening our log supply.

Second, while the Federal Government is not the dominant timber owner in the East, logs produced from Eastern National Forests are still very important. For one thing, the Government controls the largest volume of key species, such as red oak and cherry. For another, many of the highest quality logs of all species are harvested from National Forests.

Third, it makes us furious to see hardwood logs, veneer logs, from the Eastern National Forests exported for processing. However, we get even madder when veneer faces made from American logs are shipped back into this country where they enter duty-free.

Let me give you an example of our frustrations.

Brazil prohibits the export of its own important timber species, such as rosewood. Brazil also charges 60 percent import duties and other non-tariff charges on veneer produced in the United States. In addition, the central government has been paying cash subsidies for finished product exports made in Brazil from American raw materials.

To add insult to injury, Brazilian made veneer is most often shipped to the European Community [EC] nations and Japan, where it enters duty-free through the European and Japanese versions of the GSP for developing countries.

When American producers ship the same veneer products made in the United States from the same American raw materials, the EC charges 6 percent duty and Japan a duty of 5 percent. But, if someone in the United States buys veneer made in the EC or Japan or anywhere else in the world, there is no U.S. import duty imposed at all.

This is not free trade.

Mr. Chairman, let me summarize our position. We believe that raw materials extracted from Federal lands should receive primary manufacturing in this country. The United States is virtually alone in the world in permitting unprocessed hardwood timber to be exported for manufacturing elsewhere.

Hardwood logs are not like agricultural commodities. Logs must receive primary manufacturing before they can be consumed by the ultimate end-user.

A domestic manufacturing requirement for hardwood timber would not cause foreign hardwood lumber or veneer manufacturers to buy raw material from other countries. Instead, it would force end-users in Europe, Asia and other places to either establish primary manufacturing facilities here in the United States or contract with American manufacturers to custom-cut their logs.

Regardless, U.S. employment would be enhanced and our domestic manufacturing base strengthened.

The lumber and veneer producers who are supporting the ILEAC position believe passionately that manufacturing still matters.

We also believe that the Federal Government must help the private sector strengthen and expand the U.S. manufacturing base. We think it is a worthy goal which deserves your support.

We urge you to give prompt approval to S. 754 and S. 755 and to adopt our proposed amendment.

Thank you for the opportunity to make this statement.

[The complete prepared statement of Randy Taylor follows:]

Inter-Industry Log Export Action Committee

I.L.E.A.C.

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Statement before
Subcommittee on International Finance and Monetary Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate
November 7, 1989

Re: S.754 and S.755, Legislation Restricting Log Exports

Fred H. Hutchison
Washington Representative
(703) 684-8885

Statement of Inter-Industry Log Export Action Committee

Subcommittee on International Finance and Monetary Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate
November 7, 1989

Re: S.754 and S.755, Legislation Restricting Log Exports

Mr. Chairman and members of the subcommittee, I am O.C. (Bo) Edwards, President of International Veneer Company, Inc., a hardwood veneer manufacturer from the lower peninsula of Michigan. I am testifying today for our company and for the Inter-industry Log Export Action Committee.

International Veneer is a privately owned company that produces decorative face veneers for remanufacture into panelling, furniture, and other products. We have been in business since 1979 in Coldwater, Michigan. We also own and operate a veneer plant in South Hill, Virginia. Together, these two facilities employ approximately 200 people. In 1988, we purchased some 3 million board feet of American hardwood logs and converted this material into 126 million square feet of veneer. Total veneer sales in that year exceeded $18 million.

The Inter-Industry Log Export Action Committee (ILEAC) is an *ad hoc* coalition of hardwood veneer and lumber manufacturers. The ILEAC was organized earlier this year for the sole purpose of securing changes to basic U.S. policies governing the export of unprocessed timber. ILEAC member companies operate veneer and hardwood lumber mills in states east of the 100th meridian.

In recent years American veneer and lumber producers have had increasing difficulty obtaining raw material of sufficient quantity and quality to sustain our operations. The major cause of this timber supply problem is the large volume of high-grade hardwood logs that leave North America in an unprocessed condition. Thus, the ILEAC is extremely interested in the two bills, S.754 and S.755, which are the subject of this hearing.

Let me emphasize right up front that the ILEAC supports export restrictions only on raw logs. American hardwood veneer and lumber products are in high demand around the world, and the ILEAC supports efforts to respond to this demand and expand the markets for underutilized species and grades of lumber and veneer. However, as outlined later in this statement, the United States is virtually alone in the world in allowing our most desirable hardwood timber to be exported in an unprocessed form. It is time to change that situation, and we respectfully urge the members of the Senate Banking Committee to promptly approve S.754 and S.755 and to adopt the ILEAC amendment to include federal lands east of the 100th meridian within the log export ban.

ILEAC Position: Include the Eastern National Forests

For the last 20 years, Congress has restricted the export of unprocessed logs from federal lands west of the 100th meridian. For 15 of those 20 years, the export of all but a minor amount of "surplus" timber has been banned completely.[1] The reasons why the log export ban was restricted originally to the western half of the country have been lost in the obscurity of the legislative process. A thorough review of the available legislative history sheds no light whatsoever on this subject.[2]

Anyway, if there were valid softwood/hardwood or west/east differences 20 years ago, such distinctions are no longer of overriding importance. Concerns about assuring adequate supplies of timber for domestic producers led to the log export restrictions imposed by Congress in 1968, 1973, and every year since then. Concerns about log supplies are driving the present legislative initiatives, and supply uncertainties are as prevelant in the eastern national forests as well as they are in the west.

If the basic policies governing log exports are to be reexamined -- and we believe there are valid reasons for such a reexamination -- then the ILEAC advocates the following position:

- The current year-to-year log export ban should be made permanent.
- Primary manufacturing prior to export should be required for timber cut on federal lands both west and east of the 100th meridian within the contiguous 48 states.
- Procedures should be retained to enable the Secretaries of Agriculture and Interior to exempt "surplus" grades and species of timber from the primary manufacturing requirements.
- In light of the United States–Canada Free Trade Agreement, hardwood logs cut from the eastern national forests should be able to be made into lumber and veneer in Canada as is presently the case. (However, shipment of unprocessed national forest timber through Canada for eventual manufacture in other nations should not be permitted.)
- The so-called "third party substitution" loophole -- which permits a company exporting its own fee timber to purchase national forest timber from independent loggers and other "third parties" for substitution purposes -- should be closed.
- Finally, Congress should authorize each state to set its own policy regulating the export of unprocessed timber from land owned or controlled by that state. This can best be accomplished through enactment of S.755.

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1 At the present time, only Port Orford Cedar and Alaskan Yellow Cedar can leave the western states without domestic manufacturing.

2 Educated guesses about the origin of the 100th meridian delineator include the following: (1) the problem was viewed as a western problem, involving only western softwoods; (2) until very recently, the eastern national forests did not produce timber of sufficient size and quantity to be commerically significant; and (3) legislative jurisdiction and political questions might have been involved.

Reasons For This Position

1. Permitting valuable natural resources to be exported without some domestic manufacturing is a throw-back to colonial times.

The U.S. is virtually alone in the world in permitting unprocessed natural resources – such as hardwood timber – to be exported for manufacturing elsewhere. Supporters of the *status quo*, argue that logs ought to be treated just like agricultural products. They say that the federal government must promote "free trade" above all else. Unfortunately, these people overlook a basic fact: timber is different than corn. Timber must always be manufactured before it can be consumed by the ultimate end-user. Fruit, vegetables, and other food-stuffs, on the other hand, do not require processing before consumption.

We believe that, as a matter of basic public policy, American raw materials that cannot be utilized without manufacturing should receive primary processing in this country. Of particular concern to us are natural resources extracted from federal lands. As you know, the national forests were originally established and are still managed "to furnish a continuous supply of timber for the use and necessities of citizens of the United States." We feel that the government is not living up to this statutory commitment so long as it permits unprocessed federal logs to be exported overseas for manufacturing.

In my judgment, America became a dominant industrial power because of the diversity of our economy. For many decades we have been world leaders in agriculture, manufacturing, and most other economic sectors. The lumber and veneer producers who are supporting the ILEAC effort believe passionately that manufacturing still matters. We also believe that the federal government must help the private sector strengthen and expand the U.S. manufacturing base.

2. A requirement for domestic milling of federal timber would neither dampen world-wide demand for American hardwood veneer and lumber nor lead to the substitution of other species.

Hardwood species indigenous to the U.S. and Canada have many unique qualities. It is these special characteristics that make the demand for American hardwood products so great. Lumber and veneer made from American hardwood trees look, feel, and act exactly the same, regardless of whether they are manufactured in the United States or West Germany. Thus, we do not believe that a domestic manufacturing requirement will affect demand in any appreciable way.

Furthermore, a domestic manufacturing requirement for hardwood timber would not cause foreign panel or furniture manufacturers to substitute raw material from other countries. The American hardwood species in greatest demand around the globe – Red Oak, White Oak, Walnut, Cherry, Maple, and Ash – are simply not available in large quantities outside of North America. (And, Canada does not permit the export of un-processed logs of these species.)

Required manufacturing of U.S. hardwood timber in North America would force end-users in Europe, Asia, and other places to either establish primary manufacturing facilities here in the United States, or contract with American manufacturers to "custom cut" their logs. In either case, U.S. employment would be enhanced and our domestic manufacturing base strengthened.

3. The operators of lumber and veneer mills in other nations do not share our long-term commitment to protection and perpetuation of the American hardwood forests.

American hardwood veneer and lumber producers have a long-term stake in the future of America's hardwood forests. The companies who comprise the ILEAC have a long and proud history of: (1) supporting forestry programs; (2) encouraging private woodlot owners to be careful stewards of their forest resources; (3) sponsoring research aimed at improving the health of hardwood forests and utilization of hardwood fiber; and (4) replenishing both public and private forest lands through a strong conservation ethic. Foreign interests who simply purchase our logs because we let them, do not share these goals -- all of which are aimed at ensuring that America's hardwood forests remain strong and healthy in order to provide a wide-range of products and services for us and for our progeny.

A Response to the "Free Trade" Critics

Opponents of the ILEAC position say that the United States suffers when government policies interfere with "free trade." What they fail to mention is that there are great differences in the tariff levels imposed by America's trading partners on raw logs, which generally enter duty free, and manufactured wood products such as veneer and lumber, which carry up to 110 percent duties, as in the case of India.

Mr. Chairman, a real world example puts the criticism advanced by the opponents of a comprehensive log export ban in proper perspective:

Brazil charges 60 percent import duties and other non-tariff charges on veneer produced in the United States. In addition, the central government has been paying cash subsidies for finished product exports made in Brazil from American raw materials.

To add insult to injury, Brazilian-made veneer is most often shipped to the European Community nations and Japan, where it enters duty free through the European and Japanese versions of G.S.P. (General System Preferences) for developing countries. When American producers ship the same veneer products made in the U.S. from the same American raw materials, the E.C. charges six percent duty and Japan a duty of five percent. But, if someone in the United States buys veneer made in the E.C. or Japan (or anywhere else in the world), there is no U.S. import duty imposed whatsoever! Is this free trade?

Conclusion

The Inter-Industry Log Export Action Committee welcomes renewed Congressional interest in the policies which govern the export of unprocessed timber. We believe the time has come to change the law to require all timber grown on the national forests to be processed prior to export from North America. Thank you for the opportunity to present this statement.

Senator SARBANES. Thank you, sir, for a very sort of concise and focused statement.

I just wanted to put this question to you:

Do you have any idea of the extent of the logs exported from National Forests east of the 100th Meridian?

Mr. TAYLOR. I presently don't have those figures with me. However, I'm sure that we could respond to you with a written response.

[The following information was subsequently submitted for the record:]

November 24, 1989

Honorable Paul Sarbanes, Chairman
International Finance and
Monetary Policy Subcommittee
Banking, Housing, and Urban Affairs Committee
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

During the log export hearing on November 7, you asked the ILEAC witness the following question: "Do you have any idea of the extent of the logs exported from the National Forests east of the 100th Meridian?"

Unfortunately, the U.S. Forest Service does not now track where National Forest System logs from the eastern forests are ultimately manufactured. There has been no reason to keep such data because there have been no restrictions on eastern log exports similar to those which have been in place for the western states for the last 20 years.

However, I would make the following observations:

1. In 1988, U.S. manufacturers of fine hardwood veneers produced approximately 3 billion square feet of veneer. Some 60 million board feet of hardwood logs were used in the process.

2. During 1988, 203 million board feet (mmbf) of hardwood logs left the U.S. without processing. Veneer industry analysts believe that veneer-quality logs comprised at least 120 million board feet of this total.

3. Thus, two of every three hardwood veneer logs cut in the United States in 1988 (120 mmbf/180 mmbf ≅ 2/3) left the country without any processing.

Based upon these facts, we believe it is fair to assume that as much as two-thirds of the veneer-quality hardwood logs cut within the eastern National Forests are made into veneer in foreign facilities. Regretfully, we do not have a similar estimate of the percentage of federal "lumber" logs that are manufactured overseas. However, we are certain that the percentage is also significant.

You should also know that preliminary figures released recently by the Department of Commerce for the first half of 1989 indicate that the value of hardwood log exports are up more than 60 percent over 1988. By comparison, hardwood veneer exports are up approximately 10 percent and hardwood lumber exports are about the same as in 1988.

Inter-Industry Log Export Action Committee

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Washington Representative
(703) 684-8885

As emphasized in our written statement, the ILEAC is the first to admit that the federal forest lands in the eastern states constitute a relatively minor share of the overall hardwood timber supply. However, we feel strongly that timber grown within the eastern portions of the National Forest System should receive at least primary manufacturing in North America.

Before concluding, let me emphasize one other point: the European Community and Japan provide an indirect subsidy to their domestic wood products manufacturers. They do so through the imposition of import fees on finished wood products. The six percent duty on veneer charged by the EC and the five percent duty charged by Japan permit European and Japanese log buyers to pay exactly that much more than American log purchasers. While these may not seem like large margins, they are precisely enough to keep as much as two-thirds of all U.S. hardwood logs flowing overseas.

As witness after witness stated at the November 7 hearing, the choice now facing Congress is straight-forward: shall trees grown on lands owned by citizens of the United States be utilized to provide jobs for Americans, or will we continue to allow such valuable materials to be processed in other countries? We hope that you and your colleagues on the Banking Committee will extend the existing log export restrictions to include federal lands located east of the 100th meridian.

Thank you for the opportunity to participate in your review of the log export situation.

With best regards,

Sincerely,

Fred H. Hutchison
Washington Representative
Inter-Industry Log Export
Action Committee

Senator SARBANES. Well, if you would. I'm sure the Subcommittee would be able to find out for itself. I thought you might just have them in mind.

We'll now turn to the two representatives from the State of Washington, Mr. McElroy, who is Deputy Supervisor of the Washington State Department of Natural Resources, as I understand it; and then Mr. Nafziger, who is Special Assistant for Timber Policy and Rural Development in the Office of the Governor.

Mr. McElroy.

STATEMENT OF JAMES P. McELROY, DEPUTY SUPERVISOR, WASHINGTON STATE DEPARTMENT OF NATURAL RESOURCES, OLYMPIA, WA

Mr. MCELROY. Well, thank you, Mr. Chairman. I am Pat McElroy, Deputy Supervisor of the Washington State Department of Natural Resources, speaking for Washington State's Elected Commissioner of Public Lands, Brian Boyle.

Thank you for——

Senator SARBANES. He is separately elected, I take it, in the State of Washington?

Mr. MCELROY. Yes, he is.

Senator SARBANES. So it's an office independent of the Governor. Is that correct?

Mr. MCELROY. Correct. That is correct.

I request permission to insert his full statement into the record.

Senator SARBANES. His statement will be so included.

Mr. MCELROY. I'll summarize the key points.

Mr. Chairman, in my abbreviated remarks, I want to, first of all, tell you a bit about Washington State's Trust Lands, what they mean to the people of the State of Washington, and make a distinction between the States of Oregon and Washington.

Second, I will then briefly outline the consequences of Congress setting into motion a process that could result in a ban on the export of logs from State trust lands, and finally give you Commissioner Boyle's view of what a successful solution would contain.

Mr. Chairman, first, a few words about our trust lands and how we differ from Oregon.

Trust Lands were granted to the States at Statehood for the purpose of providing financial support to public institutions; principally, the common schools, colleges and universities of the emerging States.

These lands are to be managed in trust for the sole benefit of the trust beneficiaries. As I've indicated, that's principally the educational institutions.

States must adhere strictly to fiduciary trust principles in the management of these properties. In Washington State, we manage 3 million acres of State-owned lands; approximately 2.1 million acres of these lands are timbered, or have forests on them.

Income from these properties, principally from the sale of timber, amounted to nearly $200 million last year.

Senator SARBANES. May I interrupt you for a second?

What is the instrument that imposed the fiduciary responsibility upon the State and defined its terms?

Mr. MCELROY. The enabling act of the State.

Senator SARBANES. Pardon?

Mr. MCELROY. The enabling act of the State.

Senator SARBANES. Is that subject to change or alteration?

Mr. MCELROY. Well, I presume so, although there's some question as to the nature of the compact between the Federal Government and the States at Statehood.

Senator SARBANES. I see. All right. Thank you.

Mr. MCELROY. Mr. Chairman, as you heard from Senator Gorton, the significance of these State-owned forest lands to the people in Oregon and Washington is quite different.

In Washington, approximately 14 percent of the total timber harvest comes off of State lands. In Oregon, the figure is only 2 percent. Washington citizens received nearly $200 million from this timber last year, while Oregon received only $42 million, approximately ⅕ as much.

The $200 million represents approximately ½ of the money the State has available to fund school construction.

To put the State of Washington in perspective on a national basis, according to figures from the National Association of State Foresters, approximately ½ of all the timber harvested from State lands in the United States comes off of State of Washington lands. And that's why this is such a critical issue to us.

Mr. Chairman, a ban on the export of logs from Washington State lands would, first of all, not prevent a single old growth tree from being logged off of State lands, while very likely increasing logging activity on private lands.

Our lands are managed on sustained yield basis. We'll harvest just as much timber, we simply would get paid less money for it.

Second, it will reduce the income for school construction in Washington State by $100 million every year.

Third, it will reduce our ability to pay for the increased cost of implementing the new forest management techniques in an attempt to replicate old growth forest characteristics in a managed forest, as has been recommended by our Old Growth Commission.

And, last, probably not result in any significant increase in Japanese purchases of lumber or other finished forest products as they have other markets from which to obtain those.

Commissioner Boyle believes a successful solution to the problems facing the Northwest Forest Products Industry must contain the following three elements:

No. 1, to reach a long-term solution to the Federal timber supply issue;

No. 2, to lower the trade barriers, particularly in Japan;

And, No. 3, more aggressive marketing of forest products.

Furthermore, the Commissioner believes, like Representative Miller stated, the ongoing trade negotiations and administrative studies should be allowed to conclude unimpeded.

Thank you, Mr. Chairman, for the opportunity to present Commissioner Boyle's views.

[The complete prepared statement of James P. McElroy follows:]

Brian J. Boyle
COMMISSIONER OF PUBLIC LANDS

Testimony for the Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on International Finance and Monetary Policy, concerning S.755, introduced by Mr. Packwood, to authorize the States to prohibit or restrict the export of unprocessed logs harvested from lands owned or administered by States.

By Brian J. Boyle, Washington State Commissioner of Public Lands

November 7, 1989

Chairman Sarbanes and members of the Committee, I am Washington State Commissioner of Public Lands Brian Boyle, the statewide elected official responsible to the citizens of Washington State for administration of 2.1 million acres of state-owned forest lands, managed under federal and state law as a legal trust for the financial benefit of state institutions, primarily schools.

This testimony will address only S.755, dealing with log export restrictions from state-owned lands. It will not address S.754.

I am pleased to have the opportunity to present a Washington State view on the log export issue. Timber supply and timber trade policies are very much on the minds of citizens in Washington State. You might be interested to note the fundamental differences, though, between the dynamics of the issue in Washington versus Oregon.

Department of Natural Resources
Olympia, Washington 98504
206 753-5317

Oregon, much more than Washington, is dependent on federal lands for timber supply and forest products' employment. Our most recent figures, for 1988, show that 58 percent of Oregon's total harvest was from federal land, compared to only 24 percent in Washington State. Meanwhile, 14 percent of Washington's harvest is from state-owned land, while only 2 percent of Oregon's harvest is from state-owned land. Not surprisingly, state timber revenue from state-owned lands is much more significant in Washington, where these lands earned $193 million in fiscal 1989, compared to only $42 million in Oregon. Washington State's economy is also much more tied to international trade, with one in five jobs linked to international trade.

So you see, while timber sale cut backs from federal lands have had a greater potential for job impacts in Oregon, proposals to erect barriers to international trade in state-owned timber have a much more dramatic adverse effect in Washington State. Not surprisingly, then, Governor Gardner and I have a very different perspective on log exports than that of Oregon State officials.

A state log export ban would on balance be economically harmful to Washington State. We estimate a ban would cause future revenue losses to schools and other public institutions in our state of about $100 million each year. In forecasting these losses, we assume foreign log importers will not

simply switch their demand to finished products. Despite wishful thinking by some, we've seen no evidence to suggest otherwise. In fact, of Japan's softwood log exports in 1988, only six percent came from Washington State lands. At the same time, 64.5 percent of Japan's softwood lumber imports came from sources other than the U.S. Japan has other sources of logs and other sources of lumber. A log export ban, therefore, represents a real loss to Washington's trust beneficiaries.

A federal log export ban aimed exclusively at state trust lands may also be unconstitutional. The Enabling Act for the State of Washington granted these lands to the state for the benefit of schools and other public institutions, which would be harmed by an export ban. The U.S. Supreme Court has held that the federal government cannot take a position which impairs trust lands granted to the states. State action to ban log exports from state trust lands, even if otherwise permissible, would be unconstitutional. The state as a whole has a duty of undivided loyalty to the trust beneficiaries. The trust lands cannot be managed to the detriment of the trusts, no matter how laudable the competing goals. This principle has been repeatedly upheld in both the Washington State and U.S. Supreme Courts.

We have little doubt that, were S.755 to become law, citizens and elected officials in our state would find themselves in an energy-sapping

debate. Some mills, which have enjoyed subsidized federal timber supplies, have been threatened by the stalemate over old growth protection on federal land. Pleas to come to the aid of these mills would have a strong emotional pull.

In fact, this stalemate has been so severe, and the potential threats looming over some rural communities have been so imposing, as to spawn a growing sense that a major timber supply crisis exists in the northwest, justifying dramatic Congressional intervention.

I'd like, however, to call your attention to this year's forest products' employment figures. What we're seeing, in fact, are modest increases in forest products employment in each of the first three quarters of 1989. This positive trend exists in both Washington and Oregon; and in Washington, forest products employment is near historic high levels.

In other words, we're just not seeing a timber supply crisis, at least reflected in regional employment statistics. No doubt threats exist to some mills historically dependent on subsidized federal timber. But in Washington State, there are actually almost twice as many mills dependent on private lands for timber as those dependent on federal lands. Additionally, real hope exists that the courageous compromise which Congress has just

enacted for federal lands will relieve the feared supply crisis for the mills most at risk.

In the long run, market adjustments will yield the best response to future timber supply availability. Already, export demand for logs shows signs of softening, while west coast domestic lumber prices are rising. Many domestic mills should find themselves in an increasingly competitive position in stumpage markets. Even now, eighty percent of state timber sales is purchased by firms with processing facilities. We expect this percentage to increase.

A ban on log exports from state lands will also not benefit the environment in Washington State. On the contrary, we see real environmental harm. First, harvest is governed by sustained-yield objectives. The timber will still be cut; it will just earn less money. The funds used to manage these lands, derived from timber sale revenue, will be impoverished along with the schools.

Impoverished forestry is not ecologically enlightened forestry. A citizens' commission I appointed in 1988 recently reached complete consensus on recommendations for long-term management of old growth on state lands. One of their recommendations is to establish an experimental forest incorporating new forestry techniques along the lines proposed by

Dr. Jerry Franklin, University of Washington, to provide a balance of ecological values in managed stands. These new approaches are more expensive. An export ban would cut our management funds in half, making it nearly impossible to carry out the recommendations that have given all interested parties real hope of progress.

Meanwhile, large private forest landowners would receive a windfall, as log export demand shifts to them. We could expect an accelerated harvest on corporate lands, especially near the suburban fringes of Puget Sound, where concern is already high about neighborhood views scarred by large clearcuts. We estimate increased clearcutting of about 6,000 acres per year, hardly an environmental benefit.

Certainly we should strive to increase the level of domestic processing of our timber. But are there no alternatives to a harsh measure which, in order to cheapen public timber to benefit a narrow class of mills, violates principles of international trade, violates my state's Enabling Act and Constitution, severely depletes our school construction funds, penalizes the most efficient and competitive domestic mills, and leads to unwarranted environmental damage? The answer is, of course, there are alternatives.

We ask Congress not to lure us into wasteful political battles but to help us direct our energies to constructive solutions that are appropriate to our real situation and can work for all parties.

You have already made a critical first step with the short-term federal old growth compromise. We offer all our support as you take the next step to finding a long-term resolution of the real issues surrounding management of the federal forests.

We strongly support the Administration's efforts to reduce tariff and non-tariff trade barriers to import of finished timber products in Japan. Last month I traveled to Japan to speak to the Japan Lumber Importers Association. In my remarks I stressed that Japan must buy more finished wood products as a proportion of its total import of Northwest solid wood. I proposed a commitment to reverse, within five years, the current ratio of logs to finished lumber in Japan's timber import volume from Washington from 70 percent logs/30 percent lumber to 30 percent logs/70 percent lumber. We are pursuing the continuing discussions necessary to work toward this goal.

We will continue to work in this area to increase the competitive position of our state's domestic processors in open markets. Washington State's future lies in expanding international trade and improving education. A log export ban hurts both. We hope Congress will turn away from the

simple, combative, and harmful approach advocated by some and lead the way in pursuing more sophisticated, cooperative, and effective measures for management of our Pacific Northwest forests.

Thank you.

ree trade, the forests and the future

A position paper on log exports by Washington Commissioner of Public Lands Brian Boyle

The log export controversy is a symptom of deeper timber management and international trade problems, and arises from the confusion of three separate issues, each of which has a powerful emotional component. The three issues are (1) economic hardships in our timber-processing communities because of the shortage of available public timber, in particular, old growth timber; (2) the fate of old growth forests on public lands, often symbolized by the drive to preserve habitat for wildlife like the northern spotted owl; and (3) the trading status of Washington, that is, whether we are becoming an "economic colony" of our Pacific Rim trading partners, exporting raw materials and importing finished products. Obviously, log exports bear on all three issues, but simply banning log exports from state lands, as has been proposed in both the Congress and the state legislature, will not "solve" any of them. They have to be dealt with vigorously and directly, each on its own terms.

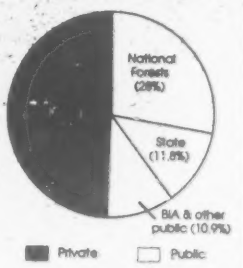
I should state at the outset that my basic premise is that the future of Washington lies in better education and expanded international trade. Trade in both finished forest products and logs is critical in both areas. Remember that much of the state land in Washington has been designated since statehood as a trust, the beneficiaries of which are the state's educational institutions. Last year, the trust lands produced an income—largely from timber cutting—of $195 million, income used for common school construction, to support the state university system, and to provide maintenance and operational funding for local school districts. The higher prices paid for exported logs allow larger educational budgets.

As there is a direct connection between the price we get for state timber and the strength of our educational system, so there is a connection between the success of that system and the ability of Washington to compete with other parts of the nation and the world for investment, industry and jobs. An increasing amount of that investment and those jobs depends on international trade, of which the trade in logs is now an important component. Thus, the exporting of logs from state lands is not merely a local problem, nor of concern only to the timber industry. How we deal with it will be critical in determining what kind of future all Washingtonians will have.

The economic hardship issue is a good place to start, as it produces much of the political steam behind the drive to ban log exports. It arises because the U.S. Forest Service has restricted logging on Federal lands in order to protect the old growth habitat of the spotted owl. These lands have been the major source of old growth timber supply for many smaller mills, which have grown dependent on this low cost wood from Federal lands.

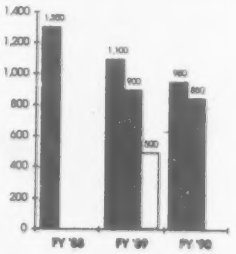
In late 1988, the U.S. Forest Service set aside 374 thousand acres as habitat for the northern spotted owl. This action alone cut in half the expected National Forest harvest on the Olympic Peninsula. Subsequent court challenges have, temporarily at least, enjoined timber sales on additional thousands of acres of National Forests in the state. And the decision

Commercial Forest Lands in Washington State by Ownership



Total Acreage
17,704,210

Reductions in Timber Supply from U.S. Forest Service Lands in Washington State (millions of board feet)



Sources: USDA Forest Service & Washington DNR

by the U.S. Fish and Wildlife Service to study the spotted owl as a threatened species may lead to even more restrictions, and reduce timber availability even more. Through all this, Congress has not yet been able to develop a long-term working compromise between environmentalists and the forest products industry.

Things have come to a head this year because timber is always a cyclical business, and over the past year the peak of the cycle, and thus the highest demand for timber, has coincided with this Federal restriction of supply—hence the pinch. Some mill owners complain that timber from state land, which could ease the pinch if sold at a low enough price, is instead being sold for shipment abroad (because of the higher prices paid by foreign buyers). These mill owners, their employees, and many of their political representatives have argued strongly for an export ban.

But when the cycle enters its downward slide, exports represent an important source of income for communities like Port Angeles and Longview. We can't ban exports when domestic demand is high and turn them on again when demand is slack. In several agricultural commodities, attempts to affect the buying policies of importing nations through export bans have not succeeded. It is too easy for importers to find substitutes.

The timber-dependent communities deserve our help. Banning log exports is an answer of sorts, in that it subsidizes certain mills with income that would otherwise go to our schools and universities.

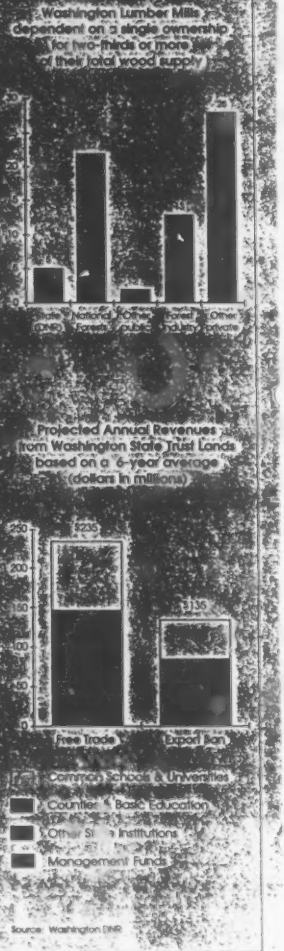
But there are better ideas. The obvious way lies in expanding our export of finished wood products to Japan. All things being equal, since the price of wood products is roughly three times as high in Japan as it is here, and since the cost of manufacture is also about three times higher in Japan than it is here, one might predict a spectacular opportunity for mutually beneficial trade, good for both the Japanese consumer and the Washington producer. But regrettably, all things are not equal.

Finished wood products from Washington face a tangle of tariff and non-tariff barriers against import into the Japanese market. Let me say here that I understand the desire of the Japanese to protect the complex network of small enterprises that has traditionally provided wood products in Japan. But great trading nations have to understand that comparative advantage works both ways. It is unacceptable, and a potential blight on the prosperity of both nations, to sacrifice jobs in the competitive wood products industry of Washington in order to preserve them in the uncompetitive sawmills of Japan.

U.S. Trade Representative Carla Hills called attention to these inequities this past May, and cited Japan and its wood products industry for its unfair trade practices under the provisions of the Super 301 section of the Omnibus Trade Act.

It is my hope that this action will serve as a prelude to the negotiation of a much freer trade in wood products with Japan. I should note, however, that free and fair trade is not the same as guaranteed markets. We still have to get out there and sell our product. And since we are trying to sell to a market with tastes in wood products that are very different from those of the domestic market, this will be no small effort.

We must also put more effort into helping these timber-dependent communities make the transition into more diversified means of making a living. It is critical that we do this directly, starting now, and not seek to delay the day of reckoning by artificially lowering the value of public timber. How do we pay for the help? If free trade generates the maximum wealth for the society as a whole, as I believe, then we must find means of



focusing some of that wealth on the people and communities who may be harmed by unrestrained free-trade policies.

In the meantime, if we have a group of communities dependent on public resources, and if the supply of public timber is insufficient to support both export and domestic demand, then one solution is to expand the public wood basket. Private lands that might otherwise be logged over quickly, for example, by an insurance company or absentee owner seeking a quick turnover on its investment, might be purchased and managed for sustained yield, with some wood marketed preferentially to small mills.

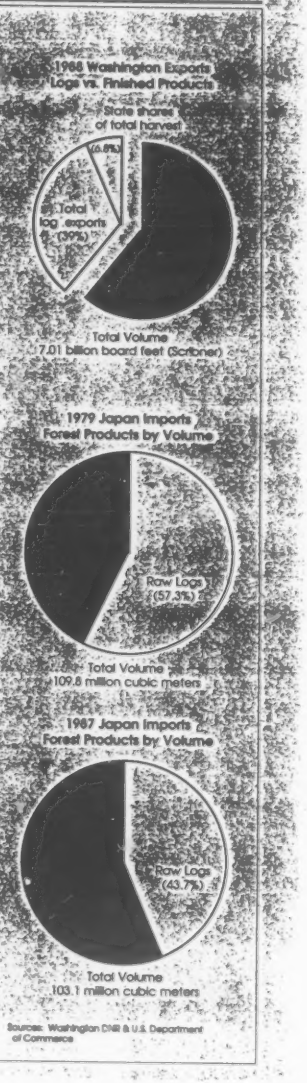
On the other hand, for all mills designed to process only old growth timber, the current situation is a foretaste of an inevitable future. Old growth is a finite resource, whether any, most, or none of it is set aside for environmental reasons. Substantial old growth acreage is protected now and not available for cutting. That means that some day, the last available old growth tree will be gone and dependent mills will be without supplies. The debate about old growth, the second of the three issues, is really about what "available" means, about when that day will arrive.

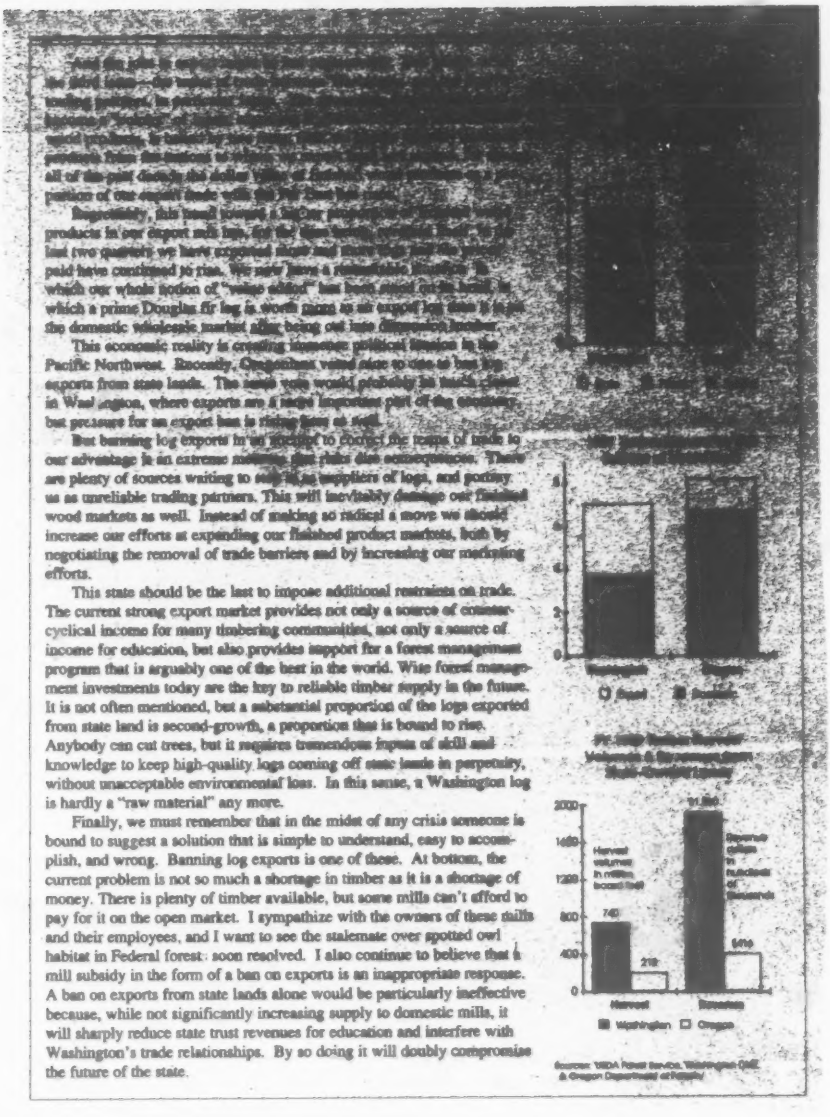
Some environmentalists hold that the day is today, that we have cut enough. Some timber interests hold that it is so far in the future that it isn't worth worrying about. I believe that uncertainty in future timber supply, rather than a temporary shortage, is the industry's worst problem. We have to get beyond the sterile polarity of "cut it all" versus "save it all." The true solution is a permanent peace between the idea of the forest as amenity or ecological reserve and the idea of the forest as commercial resource. It obviously must be both; the hard part is figuring out how to do it better than we have in the past.

We have now begun this process. In the summer of 1987, we brought together a group of thirty-three citizens of varying background and broad expertise as a Commission on Old Growth Alternatives for Washington's Forest Trust Lands. The Old Growth Commission report (June, 1989) recommends, among other things:

- the creation of an experimental forest on Olympic Peninsula state trust land to produce a level of timber harvest comparable to contemporary practices while retaining the ecological values typical of old growth forests
- the creation of an independent sustained yield unit of 260,000 acres in the western Olympic Peninsula to stabilize the timber supply for the local economy, provide income for trust beneficiaries, and slow the loss of old growth habitat
- that 15,000 acres of old growth timber identified by biologists as critical to spotted owls be deferred from harvest for fifteen years, to allow for additional research into ways of simultaneously extracting valuable timber and preserving wildlife habitat
- that the State purchase from the trust up to 3,000 acres of lands having unique natural features justifying permanent protection.

It is reasoned and creative solutions such as these that will ultimately resolve the current controversy. In contrast, an export ban would not protect the old trees at all. They would still be subject to cutting, except that the logs would go to local mills at reduced prices. A ban would also reduce by $100 million or more each year the income from trust lands, which supports the school construction fund and our state universities. At the peak of the demand cycle, according to U.S. Forest Service data, a log ban might save 1,580 domestic mill jobs, while eliminating 880 jobs in the export trades. Each retained job would thus represent a cost to our schools and universities in excess of $100,000 a year.





This economic reality is creating immense political tension in the Pacific Northwest. Recently, Oregonians voted nine-to-one to ban log exports from state lands. The same vote would probably go much closer in Washington, where exports are a larger important part of the economy, but pressure for an export ban is rising here as well.

But banning log exports in an attempt to correct the terms of trade to our advantage is an extreme measure that risks dire consequences. There are plenty of sources waiting to step in as suppliers of logs, and portray us as unreliable trading partners. This will inevitably damage our finished wood markets as well. Instead of making so radical a move we should increase our efforts at expanding our finished product markets, both by negotiating the removal of trade barriers and by increasing our marketing efforts.

This state should be the last to impose additional restraints on trade. The current strong export market provides not only a source of counter-cyclical income for many timbering communities, not only a source of income for education, but also provides support for a forest management program that is arguably one of the best in the world. Wise forest management investments today are the key to reliable timber supply in the future. It is not often mentioned, but a substantial proportion of the logs exported from state land is second-growth, a proportion that is bound to rise. Anybody can cut trees, but it requires tremendous inputs of skill and knowledge to keep high-quality logs coming off state lands in perpetuity, without unacceptable environmental loss. In this sense, a Washington log is hardly a "raw material" any more.

Finally, we must remember that in the midst of any crisis someone is bound to suggest a solution that is simple to understand, easy to accomplish, and wrong. Banning log exports is one of these. At bottom, the current problem is not so much a shortage in timber as it is a shortage of money. There is plenty of timber available, but some mills can't afford to pay for it on the open market. I sympathize with the owners of these mills and their employees, and I want to see the stalemate over spotted owl habitat in Federal forests soon resolved. I also continue to believe that a mill subsidy in the form of a ban on exports is an inappropriate response. A ban on exports from state lands alone would be particularly ineffective because, while not significantly increasing supply to domestic mills, it will sharply reduce state trust revenues for education and interfere with Washington's trade relationships. By so doing it will doubly compromise the future of the state.

Senator SARBANES. Thank you very much, Mr. McElroy.

Could I ask you before we turn to Mr. Nafziger, you indicated that this legislation would reduce the return on the Trust Lands by $100 million a year?

Mr. MCELROY. That's correct.

Senator SARBANES. How do you arrive at that figure?

Mr. MCELROY. Well, there is a price differential of approximately $250 a thousand for timber prices bid on the stump for export versus domestic marketing. And that applied to the approximate amount that is exported from Washington State lands results in a figure of approximately $100 million per year.

Senator SARBANES. So you're assuming that this lumber will be purchased domestically rather than shipped abroad and the difference in the price between those two markets will account for $100 million.

Is that right?

Mr. MCELROY. That's correct.

Senator SARBANES. Out of how much?

Mr. MCELROY. Current income last year was approximately $200 million. It's about a 50 percent reduction.

Senator SARBANES. The difference in the price for those raw logs results in the doubling of your income from the State land?

Mr. MCELROY. That's approximately so, Mr. Chairman.

Senator SARBANES. What's the domestic price for those logs?

Mr. MCELROY. Well, understand that we sell stumpage, and we don't sell the logs themselves. We sell timber stands standing in the forest.

Senator SARBANES. Right.

Mr. MCELROY. The price differential that we see between a domestic processor and an exporter bidding for those logs is approximately $250 a thousand.

It varies a little bit by species and so forth.

Senator SARBANES. So they pay you double for that stand if they're going to use it for export than if it's for domestic purpose?

Mr. MCELROY. Let me explain a couple of things.

First of all, nearly 80 percent of our purchasers over the last 3 months also have domestic processing facilities. And they make the choice of where the individual log goes. Some logs are of export quality and move into the export market.

Other logs are of species or size or qualities that move to other markets. Our logs are free and open to the market. They move to their highest and best use, which presents us with the opportunity to sell timber at a much higher price than, for example, the Forest Service does; because our logs do move in the free market system.

Senator SARBANES. Well, given that, how do you know that this legislation is going to result in cutting your return in half?

Mr. MCELROY. If S. 755 were passed and if then the Washington Legislature imposed a ban on the export of logs, we estimate, based upon the difference between export prices and domestic prices, that would reduce the amount of money that we would get for our timber.

That's the sole reason for imposing a ban, is to reduce the dollar amount paid for State timber.

Senator SARBANES. I'm having difficulty understanding how you come up with this estimate though.

I thought I understood it because I thought you sold certain standing timber for export and other standing timber for domestic use and said, well, there's a difference in the price we're receiving. And, therefore, we can easily calculate what's going to happen if we shift away from export to domestic use.

You then tell me no, we don't do it that way. We sell the stand of timber and it's used for multiple purposes.

And, therefore, I ask you again:

How is it then you're able to arrive at such a fairly precise calculation of what the loss will be, particularly when it's of such a magnitude?

Mr. MCELROY. We use published log export prices and published domestic log prices. And we can compare those prices. And those are established markets for both those prices.

We appraise our timber sales to the local domestic market. Those then are bid on by a mix of bidders. And we can, in fact, calculate that difference. That's not an arcane art at all. It's very clear.

Senator SARBANES. Mr. Nafziger.

STATEMENT OF RICH NAFZIGER, SPECIAL ASSISTANT FOR TIMBER POLICY AND RURAL DEVELOPMENT, OFFICE OF THE GOVERNOR, OLYMPIA, WA

Mr. NAFZIGER. Thank you, Mr. Chairman. My name is Richard Nafziger, and I'm here representing Booth Gardner, Governor of the State of Washington.

I would also like to submit formal written testimony for the record.

I think what we are seeing emerge here is some substantial agreement in Washington State on this issue. Senator Gorton, Congresswoman Unsoeld, Congressman Swift are all offering reasonable targeted proposals which set aside timber for domestic processing without totally banning the export of raw logs.

All of these proposals provide for Federal administration and control of export policy. I think we're beginning to see some agreement and some gravitation towards the middle on this issue, which is very important.

Timber is a very important industry to us in terms of employment, but so is international trade. We're the most trade-dependent State on a per capita basis in the entire country. So it's very important to us.

And, obviously, the link between foreign products and trade is important to us, too.

Senator SARBANES. Do you have any figures that if Washington were a separate country, what——[Laughter.]

Senator SARBANES [continuing]. In being trade-dependent?

Mr. NAFZIGER. No, I don't.

Senator SARBANES. That's just a rhetorical question.

Mr. NAFZIGER. OK.

Senator SARBANES. Please go on.

Mr. NAFZIGER. All right. A lot of our efforts have gone into trying to promote the export of finished products from Washington

State in foreign trade. But, obviously, it's going to be difficult to sustain a value-added or finished product international trade policy and maintain employment and income from forest products if you don't have a supply of timber.

Over the past few years, conflict over land use in national forests has to some degree jeopardized that supply and Congress rose to the occasion several weeks ago passing an amendment to the Interior Appropriations budget which will guarantee a supply for the next 10 months.

But, beyond that point, supply is uncertain. And it's this supply issue which has caused us to review this issue. Somewhere between 50–70 percent of the timber harvested on State-owned lands was exported in 1989.

And a significant proportion of the timber exported from State lands is the same type of large diameter timber or old growth which has been set aside from Forest Service land for environmental reasons.

Many mills in Washington State that have been dependent on Federal timber are only able to process large diameter timber. These are the mills which face possible shut-downs if Federal supplies are cut off.

It seems logical that limiting the export of logs, particularly large diameter, could help alleviate the supply problems of those mills in the short term.

However, this is a difficult issue for us. Most of our efforts have been directed toward opening markets, not placing barriers on them.

Furthermore, as Mr. McElroy said, income from the sales of timber goes to our school construction fund.

I'd like to review the legislation we have before us and offer an alternative.

S. 754 would make the Federal log export restriction permanent. And I think, as everybody in this room agrees, we support that Federal export restriction.

S. 755 authorizes States to ban the export of logs from State-owned lands. We're unable to——

Senator SARBANES. Do you have any view on whether that export restriction should extend east of the 100th Meridian?

Mr. NAFZIGER. It seems logical. It's really not anything we've studied.

We haven't really looked at that.

The other bill, S. 755, authorizes States to ban the export of logs. We're unable to support that bill at this time. We believe that the measure could create inconsistencies in international trade policies and could create greater uncertainty and unpredictability for the industry.

Like Congressman Miller stated, the Governor believes it makes more sense to have the Federal Government determine their national trade policy, not each of the 50 States. You could end up with 50 commodities with temporary export bans and 50 different State policies. And we think that would be quite confusing.

We'd like to recommend taking another approach. And I'm not prepared to offer any details at this time, but we think it would make sense to temporarily set aside for domestic processing all

large diameter old growth logs from State lands. We might want to combine this with a flexible setaside for other types of logs as well.

We think it should be federally administered. We support the broad concept offered by Senator Gorton and Congresswoman Unsoeld pointed it out earlier. These are concepts which move away from ideological extremes, of free trade and protectionism towards a workable problem-solving angle towards this whole issue.

We believe, if this program is administered by the Federal Government, then the people responsible for our nation's trade policy will be the same people running our log export policy.

This promotes trade consistency. Since this would only be a small portion of the State's log export supply, it would not likely be harmful to our State's log export infrastructure—trucking, shipping and loading industries.

As Senator Gorton stated earlier, we also believe that it would be a big mistake to see any type of export limitation as the entire solution to the timber supply problem.

Any proposal can only realistically be seen as part of the solution and, hence, part of the package. So we think it makes sense to begin working on the subject and begin moving towards consensus as we are with the Adams-Hatfield process in the Interior Subcommittee.

One of the primary arguments against legislation such as this is it ends up being a subsidy for segments of the industry. These segments will end up dependent upon the subsidy, fail to modernize and lose competitiveness.

We cannot agree with that argument in this case. The reduction in the supply of large diameter timber is the consequence of Federal policies which were imposed during the very short period of time.

Many mill owners were unable to make the adjustment overnight. This proposal simply attempts to buy them time. We would be, in fact, merely transferring part of the Federal Forest Service responsibility for community stability from Federal lands to State lands. This is nothing new.

We're attempting to replace potentially lost Forest Service timber with State timber. We think it makes good sense to temporarily combine this temporary export restriction with an industry modernization program.

That program should provide financing, technical marketing assistance to firms so they can meet the challenge of the future. We are currently working on such a program in our State.

In the past, Governor Gardner has strongly opposed any export restrictions of any type. However, recent restrictions on supply in Federal lands and the possibility of further reductions have prompted him to revisit the issue.

During the last legislative session, the Governor pursued setaside legislation similar to this proposal. Legislation was passed but it simply is unworkable given Federal restrictions on States' abilities to work in this area.

However, we are unable to find a way effectively to do the job and still be consistent with Federal law.

We are hoping you will address this issue directly during the upcoming year.

Thank you.

[The complete prepared statement of Richard Nafziger follows:]

Testimony of Richard Nafziger, Office of the Governor,
State of Washington
Before the
Subcommittee on International Finance and Monetary Policy
U.S. Senate Banking Committee

November 7, 1989

Mr. Chairman and Members of the Subcommittee:

My name is Richard Nafziger and I am here representing Booth Gardner, Governor of the state of Washington.

I am here to present some of Governor Gardner's views on this very complex and important topic of timber supply and log exports.

Timber is Washington State's number two industry. The industry directly employs 60,000 people and is indirectly responsible for another 100,000 jobs. 25 out of Washington's 36 counties are dependent on timber for their livelihood. Timber is the life blood of the vast majority of Washington's rural communities.

Washington is also, on a per capita basis, the most trade dependent state in the nation. Most of our industries are international industries and studies indicate that one out of every six jobs in the state are related to foreign trade.

Obviously the link between forest products and international trade is very important to us. Much of our effort at the state level has been focused on promoting the export of finished wood products. Over the past five years we have developed the Center for International Trade in Forest Products at the University of Washington, a State Export Assistance Center, a number of state assistance programs for small firms as well as the Washington Village Project in Japan. We recently established a forest products division in our Department of Trade and Economic Development and we are in the process of pulling together a comprehensive value-added forest products program to be implemented over the next three years.

Obviously, it will be difficult to sustain a state value-added and international trade policy and maintain employment and incomes from forest products if you don't have a supply of timber. Over the past few years conflict over land use on National forests has to some degree jeopardized that supply. Congress rose to the occasion several weeks ago passing an amendment to the Interior Appropriations Budget which will guarantee a supply of timber for the next 10 months on Federal lands.

Beyond that point Federal timber supply is uncertain. Furthermore, it is not clear that all of the National Forests in Washington will be able to provide enough timber for mills in

their areas even during this 10 month period due to specific environmental constraints on two of the forests.

It is the supply question which has prompted us to review the issue of log exports. Somewhere between 50% and 70% of the timber harvested on state-owned lands was exported in 1989. State lands provide about 12% of the harvest in Washington state and Federal lands about 20%

A significant proportion of the timber exported from state lands is the same type of large diameter timber which has been set aside from Forest Service land for environmental reasons (old growth timber). Many mills in Washington state that have been dependent on Federal timber are only able to process old growth, large diameter timber. Those are the mills which face possible shutdown if Federal supplies are cut off.

It seems logical that limiting the export of old growth or large diameter logs from state land could help alleviate the supply problems of those mills.

However, this is a very difficult issue for us because of our dependence on international trade. Our efforts have been directed towards opening markets, not placing barriers on them. Furthermore, receipts from the sales of raw logs are dedicated to the state's common school construction fund. Restricting logs

from export could have the effect of reducing revenues to our schools.

In dealing with the timber supply issue we believe that it makes more sense to begin by laying out the basic principles rather than staking out a specific position. Any proposal should meet the following criteria:

1. It should contribute to greater stability and certainty for the forest products industry and communities.

2. It should be consistent with our nation's overall trade policies and should not be detrimental to the broad trade interests of our state.

3. It should not result in a violation of our trust responsibilities to our state's schools.

4. It should not be seen as the solution to the timber supply problem but rather is part of a larger comprehensive package.

Given these principles I would like to comment on the legislation which we have before us as well as suggest an alternative.

S 754 would make the federal log export restriction permanent as well eliminate the practice of substitution. We strongly favor

the provision that makes the federal log export restriction permanent. This export restriction has been with us for some time and we believe that permanently enacting it will create greater certainty and stability.

The substitution issue is very complex. The industry has to some extent adjusted to current law, and changes in the law will obviously increase uncertainty for many firms. However, we would like to reserve judgement on this topic until we have a chance to review the General Accounting Office study on this subject which should be coming out very soon.

S 755 authorizes state to ban the export of logs from state-owned lands. We are unable to support this bill at this time. We believe that this measure could create inconsistencies in international trade policy and could create greater uncertainty and unpredictability for the industry. Governor Gardner believes that it makes more sense to have the federal government determine international trade policy, not the each of the 50 states. 50 different foreign trade policies could appear confusing to our trading partners.

We would like to recommend that you take another approach to this issue. While we are not prepared to offer details at this time, we think it would make sense to temporarily set aside for domestic processing all large diameter or old growth logs from

state lands. We might want to combine this with a flexible set aside for other types of logs as well. We believe that this limit should be federally administered. We understand that Senator Gorton, Congressman Swift and Congresswoman Unsoeld are developing legislation which moves in this direction. We are supportive of their efforts and are looking forward to working with them on the details.

This proposal would help preserve stability and predictability for that segment of the forest products industry which is currently dependent on Federal timber. Almost all of the large diameter timber is on state and federal lands. All of the large diameter timber on federal lands is domestically processed, and most of the large diameter timber on state lands is exported.

If this program is administered by the Federal Government then the people who are responsible for our nation's international trade policy will be the same people who are running our log export policy. This promotes consistency. Since this would only be a small portion of the state's log export supply it would not likely be harmful to our state's log export infrastructure; trucking, shipping and loading industries.

There is one major problem with this proposal. That is the impact on our Common School Construction Fund. Our state constitution requires that state timber lands be held in trust for the benefit of the state's common schools. It is likely that any export restriction will reduce revenues to the common school construction fund. Constitutionally, the state would be required to repay the fund for lost revenues.

Given the fact that this problem has been precipitated by changes in federal policy we believe that the federal government should be willing to compensate the school trust for at least a portion of the cost.

We also believe that it would be a big mistake to see any type of export limitation as the entire solution to the timber supply problem. Any proposal can only realistically be seen as part of the solution and hence part of a broader package which directly addresses the issue of land use conflicts on Federal lands.

One of the primary arguments against legislation such as this is that it ends up being a subsidy for segments of the industry. Those segments will end up dependent upon the subsidy, fail to modernize and lose competitiveness. We cannot agree with that argument in this case. The reduction in the supply of large diameter timber is the consequence of federal policies which were imposed during a very short period of time. Many mill owners are

unable to make the adjustment overnight. This proposal simply attempts to buy them time. We would be in fact merely transferring part of the federal Forest Service responsibility for community stability from federal lands to state lands.

We think it makes good sense to combine this temporary export restriction with an industry modernization program. That program should provide financing, technical, and marketing assistance to firms so they can meet the challenges of the future. We are in the process of developing such a policy in our state and we think that the Federal Government should join us in this effort. It could make sense to directly link timber supplies to modernization.

In the past Governor Gardner has strongly opposed federal legislation that would limit the export of any commodity. However, recent reductions in the harvest on Federal lands and the possibility of further reductions has prompted him to revisit the issue. During the last state legislative session, the Governor pursued set aside legislation similar to this proposal. However, we were unable to find a way to effectively do the job and still be consistent with federal law. We are hoping you will be address this issue directly and in a manner which is consistent with the principles that we have laid out.

Senator SARBANES. Well, we want to thank the panel. These were very helpful presentations I have. We've been here a long time. I have only a few questions I wish to put.

First of all, just to follow up on the point you make, how many States are effectively in the timber business?

Mr. NAFZIGER. In the timber business?

Senator SARBANES. How many have significant forests and are therefore involved with any policy that would affect the export of logs. How many States are we talking about?

Does anyone know?

Mr. FRAMPTON. Mr. Chairman, at least half a dozen, but certainly Oregon and Washington.

Senator SARBANES. Well, we're not talking about 50 State policies. Because the assertion was made that you're going to have 50 States following their own policies. But most States won't have any policy at all because they're not in this business.

Isn't that right?

Mr. FRAMPTON. That's correct. I mean, California, Arizona have State forest lands. But you're probably talking about 6 to 8 or 9 other States for which this is a significant issue.

Senator SARBANES. Mr. Caffall, you talked about all this is simply a subsidy. I wanted to be sure in my mind I understood what the subsidy is.

I take it the subsidy is that you will be unable to export the logs overseas at a higher price and you would, therefore, sell them at home at a lower price. And that, in effect, is a subsidy to the purchaser here at home of the logs at the lower price.

Is that right?

Mr. DOUGLAS CAFFALL. Right. That is correct.

Senator SARBANES. Does the lower price at which the logs are being sold at home provide a return of cost and a reasonable profit?

Mr. DOUGLAS CAFFALL. Reasonable profit to the mill owner? Is that who you're talking about?

Senator SARBANES. No, to the seller of the logs.

Mr. DOUGLAS CAFFALL. It's a smaller profit.

Senator SARBANES. I understand that, but does it cover costs and provide a reasonable profit?

Mr. DOUGLAS CAFFALL. I don't think it would cover all the costs. If we're talking as far as State-owned logs or State-owned lands, I don't think it would cover all the costs that you'd have to cover for the maintenance, replanting, fertilization and that type of item that they have to do after forest is cut.

Senator SARBANES. Well, but that's a State subsidy. If you purchase the logs from the State—as I understand it now, and I'm, learning this issue as we go, obviously—rather interesting issue as a matter of fact but as I understand it now, if you purchase the logs from the State land and then you in turn sold them domestically, you would cover your costs and make a profit on that, would you not?

Mr. DOUGLAS CAFFALL. That's correct. Yes, I would.

Senator SARBANES. If you sold them overseas, you would cover your costs but make a much bigger profit? Or not?

Mr. DOUGLAS CAFFALL. Depending on how the market situation is at the time. That is a good theory though, that you would cover your costs and make a profit.

Senator SARBANES. Where does the State get more money? You will bid somewhat higher on the purchase because you're going to export part of it? Is that right?

Mr. DOUGLAS CAFFALL. Correct.

Senator SARBANES. So, part of that differential will accrue to the State and part of it will accrue to you.

Mr. DOUGLAS CAFFALL. Correct.

Senator SARBANES. But, the way it's working now, you make a bigger profit by selling it overseas than selling it at home.

Mr. DOUGLAS CAFFALL. My company would, yes, that is correct.

Senator SARBANES. Your costs would be somewhat higher but it would be no means consume the extra payment that you receive from abroad.

Is that correct?

Mr. DOUGLAS CAFFALL. That's correct.

Senator SARBANES. OK. But your sale domestically will still also bring you a profit. Is that correct?

When you purchase logs from the State and then, in turn, sell them domestically at a lower price than you would obtain if you exported them, the domestic sale, nevertheless, returns a profit to you, does it not?

Mr. DOUGLAS CAFFALL. Most times, it would, yes.

Senator SARBANES. So, the subsidy you're talking about is, when you mention this, that you're foregoing a larger profit than would otherwise be the case.

Is that correct?

Mr. DOUGLAS CAFFALL. That is correct.

Senator SARBANES. OK. I think I want to give the panelists a chance because we're going to wind this up very shortly, a chance to make a final comment if they feel compelled to do so, or to respond to a point that maybe someone else has made.

I don't want you to leave the room and say, you know, if I'd only been asked this question, I really had a terrific point that I wanted to get into the record, and go back home feeling sort of frustrated.

So I'm going to really offer an opportunity to you to pick up on what someone else maybe has said that you want to challenge, or make an additional point that perhaps encapsulates an observation you want to make.

This is not an open invitation to launch on a second round of statements. I hasten to add.

But I think we'll try to bring it to a conclusion. I see I've got some takers right away. So, Mr. Frampton, go ahead.

Mr. FRAMPTON. Thank you, Senator. I just wanted to respond to Mr. McElroy's statement that a ban on log, raw log exports from Washington State lands would not save any old growth forest groves. I think he said that the reason for that is that they are practicing sustainable forestry on their State lands. There is no sustainable forestry of forests that take thousands of years to develop into the ecological mode that they're in now, which is what we're talking about in places like the Olympic Peninsula.

Washington, the State of Washington, definitely has itself in a tremendous bind here with legal provisions that would appear to cause the State to maximize the income from these holdings of old growth forests. And to his credit, the Governor appointed a very broad commission. A Wilderness Society attorney from Seattle was a member of that commission, looking for a way out of this bind, looking for a way to reinterpret the provisions or get around the provisions that would appear to require the liquidation of old growth forest for short-range income. Short range return.

One of the things that a ban on export of raw logs from Washington State lands would do, I think, is to give us some time to figure out whether there's a way out of this bind, to reinterpret the legal provisions or develop strategies that would appropriately value these forests for something other than short-term return in the next quarter and the quarter after that.

And there is an important connection there. And I think there would be a very positive impact in that respect.

Senator SARBANES. Mr. McElroy.

Mr. MCELROY. I'd like to clarify two things. One is I said that there would be no reduction in the harvest of single old growth trees from State managed lands. I did not make the reference to Forest Service land.

But it's obvious what's being suggested by the Wilderness Society is that the school children in the State of Washington provide the mechanism through reduced income from State lands to provide the opportunity to work out the solution on Federal lands. And we don't think that that's a very fair solution.

Senator SARBANES. Well, do you have old forests on State lands?

Mr. MCELROY. Yes, indeed, we do. And, in fact, the Commission that Mr. Frampton referenced——

Senator SARBANES. Do you protect those or do you log those?

Mr. MCELROY. We are involved in both. The Commission that the gentleman referred to——

Senator SARBANES. Well, why would the delay not provide some protection for the old forests on State land?

Mr. MCELROY. The Old Growth Commission that recently was appointed by the Commissioner of Public Lands, Brian Boyle, came forward with a recommendation. They did a number of things, one of which was to set aside a certain amount of old growth timber with a compensation to the underlying school of trust.

The other thing was a deferral of harvests on 15,000 acres of that while we examined the research results from both the new experimental forest as well as research related to old growth habitat characteristics and the need for spotted owls.

So we are actually doing both. We log old growth stands. Those were the stands that we inherited at Statehood, as well as protect them.

Mr. NAFZIGER. Mr. Chairman.

Senator SARBANES. Yes.

Mr. NAFZIGER. I wanted to comment a little bit on the Common School Construction Fund issue that Mr. McElroy was talking about.

Senator SARBANES. Pull that microphone closer to you. I think it would be helpful.

Mr. NAFZIGER. Sure. Thank you.

The first point is that my understanding is that price differential between domestic and export timber is a somewhat recent differential? Single year differential?

Mr. MCELROY. That's a longstanding differential. The amount is recent, the current price. But there's always been a difference between export price and domestic price.

Senator SARBANES. What has the traditional differential been?

Mr. NAFZIGER. Much smaller than that. The issue here——

Senator SARBANES. That's what I was at.

Mr. McElroy, what's the traditional differential been?

Mr. MCELROY. It varies wildly with the cyclical nature of the timber industry. At some times, we have very strong domestic demand and slack export demand. Then it's not very much. At other times, we have very high foreign demand and slack domestic demand. That could be considerable.

At the moment, we have a falling off of demand other than the artificially imposed problem on the Forest Service lands. But, at the same time, we have a high domestic demand and a high foreign demand.

Senator SARBANES. But, of course, putting aside the cyclical factors, you would expect a differential in any event simply related to transportation and other costs, would you not?

Mr. NAFZIGER. Correct. I'd like to make one point, that this recent differential between export and domestic prices is at its highest level right now. These are very high levels. We're talking about the top part of the cycle.

And so the numbers we talk about, I don't believe reflect averages over any period of time. And that differential at this point appears to be declining.

So, like you were saying earlier, it's very difficult to get a handle on this issue.

The other issue is that the Common School Construction Fund has not entirely been funded by timber revenues. Those revenues have not been adequate in the past and it has increasingly relied on the General Fund for financing.

Senator SARBANES. Mr. Hendricks.

Mr. HENDRICKS. Senator, if I could just expand briefly and maybe help to educate some of your background. You asked some questions of Mr. Caffall regarding the marketing mechanism.

I think, in his comments, he was thinking more in general terms and maybe you were in more specific areas.

You have to understand that the owner of the stumpage, the owner of the standing timber, whether it be the State or the private, markets that to a buyer who, in turn, if he's going to be successful in that bidding process and reach the highest price, he's got to market those various logs into their best markets.

And, usually, a part of that, a part of those best markets are export log markets. In any given tract of land, you will have a significant portion that will be an export as well as domestic.

In the bidding process, quite frankly, the benefit of the higher market trickles down to the land owner, to the timber owner. The competitor is in there, obviously, if they're going to stay in business over a period of time, they have to have some profit margin—the

middle operator or the logger, whoever it might be that's bidding on that timber has to have some profit margin to be in business.

But, quite frankly, the aggressive bidding markets that we've seen over the last 20 years or so in the Northwest have provided benefit to the owner of the timber. In this case, we're talking about the State ownership of the timber.

And, ultimately, that's where, if somebody walks away with a bigger profit one time or another, that's who it really is.

Senator SARBANES. Well, now I want to be sure about that because I asked that question, but I didn't understand that to be the answer.

I understood that the State got part of it, but that the bidder on the State sale also got part of it.

Mr. HENDRICKS. Well, I don't mean——

Senator SARBANES. And I don't understand that there's a 100 percent passthrough resulting from the higher export price that goes to the State. Now, is that the case or not?

Mr. HENDRICKS. I'm telling you, that is basically the case. You've got competitors that are in the business of logging timber and they've got certain costs associated with that.

Senator SARBANES. Well, Mr. Hayward, do you want to make any observations on that?

Mr. HAYWARD. No.

Senator SARBANES. You seem to want to. I'm happy to—— [Laughter.]

Mr. HAYWARD. I don't know that we can ever identify that total differential. Like in the State of Oregon, on a typical timber sale, you get some mills bidding and you get some exporters.

The mills in this day of short and critical timber supply will bid at and beyond their break-even, depending on how much they're trying to keep the mill operating, hoping for an affordable timber supply.

But, no matter what that price seems to be, that stops at a point and then the exporters start bidding. If there's only one exporter at the sale, then that differential may only be one dollar.

If there's two exporters at the sale, they may run it up $100 until whoever has the best, feels they have the best market, will finally be the top guy.

But, if there's only one exporter there, he may only run the mill out by a dollar. So it's very hard to determine where the differential is.

But there's no passthrough, you know, of profits beyond the bid price. The Government or the State gets the bid price.

There's no measure in this of the social benefit to having mill jobs in mill communities and what that means to public owned timber either.

Mr. RAMISKEY. Senator.

Senator SARBANES. Mr. Ramiskey.

Mr. RAMISKEY. Yes, Mr. Chairman. There's something that, some testimony I heard from my fellow unionist on the panel that I would like to correct for the record, that the Vice President of Weyerhaeuser's informed me that they have called their negotiator in the Soviet Union, called upon him, and there's absolutely no

plan to re-import lumber that would be manufactured in the Soviet Union.

And it sounds to me like one of those kinds of myths you read in a super market tabloid. It's the same kind of thing that started to develop when logs were first transferred to other Pacific Rim countries from the Northwest.

Thank you.

Senator SARBANES. OK. Does anyone else wish to add anything? Mr. Pierce?

Mr. PIERCE. I think the bidding process on the logs is much the same as an antique auction. I know my mother's an antique dealer and I went to an antique auction with her one time. There were about 40 or 50 antique dealers there and there was one little, old rich lady there. And she wanted several items more than they did.

They could make a profit by bidding, but you're not going to outbid that kind of person. They're going to buy it no matter what the price is.

And I really believe that the Japanese people, the bottom line is jobs for their people. And they're willing to pay the price.

And who knows what the Soviet Union is going to do? You know, I believe that that well could happen, that scenario that I pointed out.

Thank you.

Senator SARBANES. OK. Well, gentlemen, we thank you all very much. It's been a very helpful panel.

The committee stands adjourned.

[Whereupon, at 12:30 p.m., the Committee was adjourned.]

[Additional material supplied for the record and response to written questions follow:]

Question for Mr. Brian Boyle, the Washington State Commissioner of Public Lands from Senator Donald W. Riegle, Jr., Hearing of November 7, 1989

Q.1. You stated on page 3 of your prepared testimony that "State action to ban log exports from trust lands, even if otherwise permissible, would be unconstitutional. The State, as a whole, has a duty of undivided loyalty to the trust beneficiaries."

- I understand that you mean by that statement that it would be unconstitutional under the Washington State Constitution for the State to ban the export of raw logs from state lands. Could not the State amend its own Constitution to permit such a ban? If not, why not? If the State itself cannot amend its own Constitution, how could the Washington State Constitution be amended if the people if the State wanted it amended? Would it require action by the Federal Government? If so, what kind of action?

Reply to the question from Senator Donald W. Riegle, Jr. from Brian Boyle, Commissioner of Public Lands

Yes, Washington State can amend its constitution. This requires, first, an act of the legislature to put the matter before the voters, and then a majority vote of the people at the next general election.

However, the trust relationship is not equivalent to other provisions in the state constitution as it results from a compact between the state and federal government at statehood.

Therefore a constitutional change alone, even if achievable, would not be sufficient.

Nor do we believe the federal government has unilateral authority to revoke the trust, or require the state to amend its constitution.

You should know that all indications from the Washington State Legislature are against log export restrictions from state trust lands.

However, if the state and the federal government jointly desired to change the longstanding terms of the statehood compact, a legal means could presumably be found to do so. Remember that same enabling act covered Washington, North and South Dakota and Montana.

We do not believe the relatively confined and temporarily adverse effects of federal timber supply reductions on a narrow segment of subsidized mills in this state warrants a remedy requiring such profound legal restructuring of accepted and relied-upon trust arrangements that have stood the test of time.

A December 20, 1989 paper developed by my office entitled "Legal Limitations on Federal or State Efforts to Impose Log Export Restrictions on the Federal Land Grant Trusts" directly addresses the legal issues raised by your question and is being provided to the committee.

January 12, 1990

LEGAL LIMITATIONS ON FEDERAL OR STATE EFFORTS TO IMPOSE LOG EXPORT RESTRICTIONS ON THE FEDERAL LAND GRANT TRUSTS

by Nixon Handy[1]

Numerous proposals have been advanced in the Congress, federal agencies and the Northwest states to impose log export restrictions on the federal land grant trusts, which are managed by some states for the benefit of schools and other state institutions. This paper, written from Washington State's perspective, addresses legal issues raised by these proposals.

Washington State owns two categories of forest land: the federal land grants and the Forest Board lands. The federal land grants consist of 1.5 million acres of forest land which the state manages for the benefit of schools and other institutional beneficiaries. These lands are the subject of this paper.

Washington State also manages 640,000 acres of Forest Board lands for the benefit of nineteen Western Washington counties. Forest Board lands are governed solely by state law and are not subject

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[1]Nixon Handy is the Executive Assistant to Washington State Land Commissioner Brian Boyle. From 1975 to 1989, Mr. Handy served in the Washington State Attorney General's office. For eight of those years he represented the Commissioner of Public Lands and the Department of Natural Resources.

to the federal trust obligations discussed in this paper.[2]

Washington's experience illustrates the federal land grants' rich history and federalism roots. On February 22, 1889, Congress passed an Enabling Act to facilitate admission into the Union of North and South Dakota, Montana and Washington. The Enabling Act required the territories to hold constitutional conventions and adopt state constitutions.[3]

In their constitutions, the states were required to make certain concessions in exchange for achieving statehood and receiving grants of federal land. The concessions were to be "irrevocable without the consent of the United States and the people of said states."[4] If the states made the necessary concessions, the President was authorized to proclaim the states admitted into the

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[2]The Washington State legislature in 1989 passed SB 5911. This law authorizes a county to request that certain forest board timber sales in their county be sold only to purchasers with a demonstrated history of domestic processing. That bill has now become law and the department has promulgated implementing regulations. WAC 332-140-400. No county has, however, made such a request and it is doubtful any will do so, due principally to the legislature's failure to compensate the county for the reduced revenues expected on such sales. The bill did not extend this process to the federal land grants for the legal reasons discussed in this paper. If you are interested, we can provide further information on SB 5911.

[3]Enabling Act, section 4. 25 Statutes at Large, c. 180 p. 676.

[4]Id., section 4.

Union.[5]

The key state concessions related to federal land, the land grants and public education. The future states were required to agree not to contest or tax the federal land holdings within their borders and to agree to establish and maintain a public school system.[6] In return, the federal government was to allow statehood and make grants of federal land to the states so they could establish public schools.[7]

Washington's constitutional convention was held in the summer of 1889. The constitution, which contained Washington's concessions, was ratified by the people on October 1, 1889. On November 11, 1889, President Benjamin Harrison issued a proclamation admitting Washington into the Union.[8]

Thus, the federal land grants were part of a political compromise under which the public land states agreed not to contest or tax the federal land holdings within their borders in exchange for school

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[5]Id., section 8.

[6]Id., section 4.

[7]Id., section 10 et seq.

[8]26 Statutes at Large, Proclamations, p. 10, November 11, 1889.

and other land grants.[9] Washington's Enabling Act granted 3.1 million acres of land to the state for common schools, a university, an agricultural college, normal schools, charitable, educational and penal institutions and the state capitol.[10]

Theodore Roosevelt described the school land grants as having laid "the basis for the whole system of public education" in the Western states.[11] In the history of the land grant program, over 77 million acres were given for the common schools, 2.4 million of which were located in Washington State.

The U.S. Supreme Court has characterized the school land grants as a "solemn agreement" between the Congress and the state.[12] This agreement is a permanent trust, with the United States as grantor, the state as the trustee, and the schools and other institutions as beneficiaries.[13] In Washington State, the Department of Natural Resources by statute implements Washington's trusteeship

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[9]Gates, History of Public Land Law Development, 317 (Zenger ed. 1968); S. Fairfax and C. Yale, Federal Land, 16 (Island Press 1987).

[10]Enabling Act, section 10 et seq.

[11]The Winning of the West.

[12]Andrus v. Utah, 446 U.S. 500 (1980).

[13]U.S. v. 111.2 Acres of Land in Ferry County Washington, 293 F.Supp. 1042.

responsibilities.[14]

The states were originally expected to sell the granted land, place the sale proceeds in a permanent fund, and use the interest generated to build schools and support education.[15] Much of the land was in fact sold, with revenues deposited in permanent funds. These funds annually provide funding for schools and other beneficiaries.

In Washington State, however, as in some other Western states, a decision was made to retain some land in public ownership and to manage the land (rather than a permanent fund) with management proceeds devoted to the schools and other beneficiaries. Today, Washington State manages 2.9 million acres of trust land in forestry, agriculture, urban and other commercial uses for schools and other beneficiaries.

Thus, the corpus of the trusts today is in two forms: a permanent fund, in the case of lands which were sold, and the land itself where the decision for land management was made. Neither the Congress nor the states may devalue the monetary trust assets to benefit others. Similarly, the trust lands and their management proceeds may not be devalued to serve other public purposes, as illustrated by the court cases discussed below.

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[14]Chapter 43.30 RCW.

[15]Lassen v. Arizona, 385 U.S. 458 (1967).

Throughout history the temptation to use school trust assets to benefit other worthy public purposes has been great, resulting in substantial litigation. The courts have consistently protected the trusts from attempts to divert proceeds to other public purposes. Thus, federal and state governments may not use state school trust lands as public parks,[16] to subsidize highway programs,[17] to benefit farming and ranching,[18] to further federal reclamation programs,[19] or to protect an endangered logging industry.[20] Instead, federal and state governments have a duty of undivided loyalty to ensure that trust assets are devoted to the designated beneficiaries.[21]

Washington State has been down this road in recent history, notably in the early 1980s, when the timber market fell dramatically. The crash left the timber industry holding state timber sale contracts purchased for $300 mbf and up when the current market was around

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[16] State v. Univ. of Alaska, 624 P.2d 807 (Alaska 1981).

[17] Lassen v. Arizona, 385 U.S. 458 (1967).

[18] Oklahoma Education Association, Inc. v. Nigh, 642 P.2d 230 (1982).

[19] Alamo Land & Cattle v. Arizona, 424 U.S. 295 (1976); U.S. v. 111.2 Acres of Land in Ferry County Washington, 293 F.Supp. 1042 (1968); U.S. v. 63.73 Acres of Land in Dowes and Sioux Co. Neb., 265 F.Supp. 564 (D. Neb. 1967).

[20] County of Skamania v. State, 102 Wn.2d 127, 685 P.2d 576 (1984).

[21] Id.

$100 mbf.

To assist the stricken industry, the state legislature passed, over Land Commissioner Boyle's objection, the Forest Products Industry Recovery Act of 1982.[22] That law excused the industry contracts with minimal penalties. The act's purpose was to assist an ailing industry, avoid bankruptcies, preserve competition, and maintain future timber prices, thereby bolstering the forest products industry and stabilizing employment.[23]

The act was challenged by trust beneficiaries and invalidated by the State Supreme Court in the Skamania County case.[24] The court unanimously found that while the industry would stand to lose approximately $100 million if forced to comply with the contracts, the trusts stood to lose nearly that much if the companies were excused from performance. On federal land grant principles, the court found that the state was powerless to offer the income from state school lands to aid an ailing industry. Rather, the state had the duty of undivided loyalty to administer the trusts only for the benefit of the schools and other beneficiaries.[25]

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[22]Chapter 222, Laws of 1982, formerly codified as RCW 79.01.1332 through 1339.

[23]Id.

[24]County of Skamania v. State, 102 Wn.2d 127, 685 p.2d 576 (1984).

[25]Id.

As trustee, Commissioner Boyle and DNR were forced to clean up the mess left by the Skamania County case. DNR sued eighty-two defaulting companies and their insurance carriers to recover on the defaulted contracts. The legislature appropriated $1.2 million just for DNR's legal fees and related costs. Through litigation and settlement, the state has been successful in recovering over 70% of the value of the original timber sale contracts.[26]

After two years of litigation over the constitutionality of the act, and five years of litigation against the timber companies, this unfortunate and unnecessary chapter in state trust management has finally come to a close.

In this context, the possibility that history may repeat itself is most distressing. This time, various federal proposals are offering the income from the school trusts as a subsidy to ailing mills. The federal laws and principles, however, remain precisely the same.

Just last month, the Congressional Research Service released a report on options for regulating timber exports.[27] The CRS report discusses the legal difficulties related to federal restrictions

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[26]Including the value of the timber returned, the state has recovered approximately $295 million in these cases.

[27]Kenneth R. Thomas, Legislative Attorney, American Law Division, CRS Report for Congress, Regulation of Timber Exports: Options, November 14, 1989.

on log exports from school trust lands. The report states:

> "Thus, to the extent that banning the export of timber would diminish its value, the states may be in violation of the terms of their trusts. Further, as Congress has no remaining interest in the land, it is not clear that Congress could alter the terms of this trust agreement by legislation so as to allow the states to act to limit exports."[28]

The author cites 73A CJS Section 82 for the foregoing proposition. Section 82 makes the point even more strongly:

> "After the title to school trust lands is vested in the state, such lands are not subject to any further legislation by Congress, and the absolute control of such lands where not transferred is in the state.[29]

This result is also supported by other authorities. The federal government made many grants of land to private individuals and to states. The rule has been stated simply:

> "A grant by Congress to a state is no more subject to be recalled at the will of Congress than a grant to an individual."[30]

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[28]Id. at 6.

[29]The CRS report by footnote observes that these legal principles would not appear to affect Congress's ability to unilaterally limit exports. This footnote is correct if read to mean that Congress may enact legislation relating to exports which apply to all lands. This reading is consistent with the authority cited in the CRS report that Congress has no remaining interest in these lands and may not act to further burden them.

[30]73 C.J.S., Public Lands Section 66.

Six months ago, the United States Supreme Court reaffirmed this principle in a case regarding Arizona's federal land grants.[31] In that case, the U.S. Supreme Court confirmed Congress's inability to place limitations on the state's management of these lands after the grant has vested in the state:

> "Congress could not, for instance, grant lands to a state on certain specific conditions and then later, after the conditions had been met and the lands vested, succeed in upsetting settled expectations through a belated effort to render those conditions more onerous."[32]

The Supreme Court went on to say that Congress could relax the conditions under which the lands were granted. In fact, Congress has amended Washington's Enabling Act numerous times since statehood. In each amendment, however, Congress has relaxed or liberalized management practices by allowing exchanges, simplifying procedures, or giving greater flexibility for the intended purpose of increasing revenues to the trusts.[33] Congress has never amended

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[31] Asarco v. Kadish, 109 S.Ct. 2037 (May 30, 1989).

[32] Id. at 2053.

[33] As the states administered the newly-granted trust lands, Enabling Act requirements were encountered which unduly restricted the state's ability to generate maximum revenue for the trusts. In these situations, the states requested Congress to amend the Act to allow greater management flexibility. Section 11, for example, has been amended eight times: 1921 (to allow grants of easements and to adjust mineral lease terms); 1932 (to allow exchanges for equal value and to adjust leasing terms); 1938 (to increase lease periods); 1948 (to allow mineral leases); 1952 (to pool oil and gas revenues and provide for a pro rata distribution to the trusts); 1962 (to use funds from the sale of charitable, educational, penal and reformatory institution lands to construct such institutions); 1967 (to allow lease revenues and timber sale proceeds to construct schools); and 1970 (to further facilitate exchanges for equal value).

the Enabling Act or passed general legislation to revoke the grants, devalue their assets, or devote them to public purposes other than those for which they were granted.

One exception to this statement may exist. Congress has passed general police power measures, such as the federal environmental laws, which apply to all lands. Washington State has consistently taken the position that trust lands are subject to reasonable exercises of the police power applicable to all lands. The state has consistently objected to police power measures which unfairly discriminate against trust lands. Otherwise, the trust lands in effect become a subsidy to non-trust values.

The financial impact of log export restrictions on school trust lands is substantial. Washington State timber sales in FY 1989 sold for approximately $250 million. Based upon the historical difference in value received from state auctions compared to Forest Service sales which are subject to an export ban, DNR estimates there to be an approximate 40% "export premium" for exportable logs.[34] Reducing FY 1989 timber sales by 40% results in sales of

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[34]Experts will differ on these numbers. The export premium runs in cycles with timber markets, based on domestic and export demand. In 1987 and 1988, the export premium exceeded 40% due principally to a strong export market. The premium for the first three quarters of 1989 has been much less, most likely due to the severely-constricted supply on federal lands caused by the spotted owl injunctions. With the Adams-Hatfield amendment, the federal supply crisis will ease somewhat and the export premium should return to historical levels. Whatever numbers are used, however, the export premium is substantial.

only $150 million, a reduction of $100 million for that year.[35]

Although trust income may not be diverted, the notion of compensating the trusts for transferring trust lands to other public uses is well recognized. Many of Washington's state parks were originally trust lands that the state "purchased" from the trusts. In this process, the state legislature appropriates state general funds equivalent to the fair market value of the trust property and transfers it to the trust. The property is then removed from trust status and managed for other values.[36]

The compensation principle also applies to the federal government. The courts have consistently held that the federal government must compensate the school trusts when taking school trust lands or dedicating them to a non-trust use.[37]

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[35]Assuming a Forest Service study is correct that a log export ban in Washington and Oregon would result in a net savings of 700 jobs, the result would be Washington's school and other trusts paying approximately $143,000 per year for each job created in a mill. See Donald F. Flora and Wendy J. McGinnis, Embargoes On and Off: Some Effects of Ending the Export Ban on Federal Logs and Halting Exports of State-Owned Logs, 1989 (CINTRAFOR).

[36]In 1989, the legislature appropriated $71.5 million to the Department of Natural Resources for the state to purchase environmentally-sensitive properties from the common school trusts. Once purchased, these lands will be removed from trust status and managed for environmental values. On December 13, 1989, Governor Gardner announced his proposal to request an additional $70 million for this purpose.

[37]Alamo Land & Cattle v. Arizona, 424 U.S. 295 (1976); U.S. v. 111.2 Acres of Land in Ferry County Washington, 293 F.Supp. 1042 (E.D. Wash. 1968); U.S. v. 63.73 Acres of Land in Dowes and Sioux Co. Neb., 265 F.Supp. 564 (D. Neb. 1967).

Without compensation, log export restrictions are in effect an expensive subsidy to domestic processors. With a log export ban, a transfer of wealth occurs instantly. A log worth $100 becomes a log worth $60. The school trusts are $40 poorer and the domestic processor is that much richer.

This form of subsidy is also not good for the environment. All forest landowners are under pressure to reduce clear-cut size, enlarge riparian management zones, conduct habitat planning, reduce herbicide use, construct high quality roads and engage in other enlightened forestry practices. Reducing any forest landowners' return on assets by 40% also reduces that landowners' financial ability to meet environmental obligations and regenerate a healthy forest. Impoverished forestry is not enlightened forestry.

In addition, the constricted supply caused by state log export restrictions would only serve to increase export demand and price. A powerful incentive would be created for private forest landowners to increase their harvests to meet a market opportunity. That additional harvest would also impose additional environmental burdens.

In summary, this paper concludes as follows. First, as a legal matter, neither the Congress nor the states may offer up the income from the federal land grant trusts as a subsidy to an ailing

segment of the timber industry. Second, as a public policy matter, no good reason exists for requiring public landholders like schools, Indian tribes or counties to subsidize the saw mill industry. If Congress or the states wish to further support this sector, general fund monies should be appropriated for this purpose. Finally, any federal or state limitations on log exports should be applied equally to public and private lands.

December 20, 1989

CWT
CONSUMERS FOR WORLD TRADE
1001 Connecticut Avenue, N.W.
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Washington, D.C. 20036
202-785-4633

November 6, 1989

The Honorable Paul S. Sarbanes
Chairman
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Re: Subcommittee Hearings on S.755

Dear Senator Sarbanes:

I am writimg to express our opposition to the log export ban bill, S.755. Consumers for World Trade (CWT) is a national non-profit organization whose purpose is to promote an open and equitable international trading system in which the interests of consumers are represented in the formulation and conduct of trade policy.

CWT supports legislation that broadens trade opportunities, not restricts them. It has been shown time and again that the market place cannot be subsidized into efficiency, snd that the losers from such subsidization are almost always consumers.

We believe that the passage of S.755, which authorizes individual States to regulate the export of unprocessed logs harvested from state-owned lands, would be a step backwards from the recent gains toward a cohesive and effective U.S. trade policy.

CWT is particularly concerned that permitting individual States to impose their own trade policy, in this case, a log export ban, is patently inimical to a cohesive trade policy. The resulting possible "balkanization" of U.S. trade policy, especially in the agricultural sector, is enormously disturbing.

In addition, we believe that this legislation would violate the "standstill" agreement in the current Uruguay Round negotiations by imposing, or granting authority to impose, new restrictions on unprocessed log exports. The intent of the "standstill" provision was to freeze all trade restrictions at their 1985 levels so that negotiators could deal with static, not moving, targets during the new Round. It was also meant to send a signal to the world that GATT

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PHILIP H. TREZISE
Senior Fellow, Brookings Institute
WILLIAM S. BERGMAN, CAE
Executive Director

signatories would not move in the direction of further trade restrictions but toward further trade liberalization. CWT feels that consumers greatly benefit from progress within the GATT framework, and we accordingly oppose unilateral action by the United States which would imperil such progress.

In light of the above, CWT urges you to oppose S.755. Enclosed you will find a copy of our most recent Newsletter, which contains, on Page 7, the rational for our opposition to this legislation.

We respectfully request that this letter be made part of your Committee's hearing record.

Sincerely,

Doreen L. Brown
President

encl.

cc: Members of the Subcommittee
Mr. Kevin C. Gottlieb
Mr. Patrick A. Mulloy
Mr. Martin J, Gruenberg
Mr. John G. Walsh

CONSUMERS FOR WORLD TRADE

LEGISLATION PROPOSES DELEGATING EXPORT CONTROL AUTHORITY TO THE STATES

* Legislation, (S 755) has been introduced by Senator Packwood (R-OR) which would delegate to the state governments the right to restrict exports from that state of a particular product, in this case logs. In effect, this would give states the right to make trade policy unilaterally by controlling their exports. An earlier attempt by Alaska to prohibit log exports in order to subsidize the local saw-milling industry had been overturned by the Supreme Court in 1984. The court held that under the Constitution, foreign commerce is controllable only by Congress, and as Congress had not delegated that power to the states, the states cannot make the decision. The Supreme Court stated that "congressional intent must be unmistakably clear" with respect to state delegation under the Commerce clause. Hence, Senator Packwood, joined by Senators Cranston, Baucus, Burns, McClure, and Stevens, have introduced legislation to delegate this authority to the states, should they desire to use it to subsidize their local saw-milling industry.

* Delegation of the authority to the state to control exports, could lead to the "balkanization" of U.S. trade policy. In commenting on a request to join in this legislation, Senator John Heinz (R-PA) wrote that such legislation invited us "...to start down a very dangerous path." He noted that his state, as well as a number of others, would very much like to be able to unilaterally impose trade restrictions on the import side. "The argument that Congress should delegate this power to some states for some purposes and not to others for other purposes that are just as important to them is not very convincing."

* While the Administration has not yet formally gone on record regarding this proposed legislation, then U.S. Trade Representative Clayton Yeutter registered strong opposition to similar legislation that would have allowed state governments, acting in their narrow interests, to dictate trade policy, a responsibility that, up until now, has rested solely with the Federal government. "Individual state actions would hamper our ability to use mechanisms already available to us under the law to achieve our international trade-related objectives," wrote Amb. Yeutter. Imposing such new trade restrictions would violate the "standstill" agreement on trade restrictions the United States undertook when agreeing to participate in the Uruguay Round. And, worse still, new restrictions would invite trade retaliation from our foreign suppliers which would raise prices on those consumer goods.

* CWT supports a trade policy that increases rather than diminishes the flow of world trade, and enhances the stability and effectiveness of the international trading system. CWT opposes the delegation of congressional authority to regulate foreign commerce to the states. To do so would set an important precedent that could lead to the fragmentation and eventual dismantling of central direction of trade policy. It would also invite retaliation from our trading partners, and it would be the consumer who would suffer in the retaliation.

United States General Accounting Office

GAO Testimony

November 7, 1989

Administration of the Federal Ban on Exports of Unprocessed Federal Timber

A Statement for the Record by
John W. Harman, Director, Food and Agriculture Issues
Resources, Community, and Economic Development Division

Submitted to the
Subcommittee on International Finance and Monetary Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate

Mr. Chairman and Members of the Subcommittee:

We are pleased to submit for your hearing on federal log exports, this statement for the record on the implementation of the federal ban on exports of unprocessed federal timber. The current restrictions were established in 1973, when the Congress banned the export of unprocessed timber from federal lands in much of the western United States because of the adverse impact on the domestic wood-processing industry. Through regulations, however, timber-exporting companies have been allowed to maintain their historic export levels and to continue buying federal timber for replacement of the private timber they exported. It is our understanding that, as part of your hearing, you will consider whether changes should be made to the current legislation.

Between 1984 and 1988, exports of unprocessed timber from Washington and Oregon ports have increased by about 1 billion board feet.[1] Domestic manufacturers have been concerned that this increase, coupled with other restrictions on federal timber sales, has threatened to cause potential domestic timber shortages and higher prices. The two principle agencies responsible for administering the sale of timber from federal lands are the Forest Service, Department of Agriculture and the Bureau of Land Management, Department of the Interior. At Congressman DeFazio's

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[1]A board foot is the equivalent to a piece of wood 1-inch thick, 1-foot wide, and 1-foot long.

request, we examined how these agencies have administered the regulations governing the replacement of private timber exports with federal timber purchases.

The results of our work can be summarized in three main points:

-- First, the Forest Service and the Bureau differ considerably in the extent to which their regulations control timber replacement. While the Forest Service's regulations make it fairly difficult for a company to buy more Forest Service timber to replace increased exports of private timber, the Bureau's current regulations allow companies to increase their purchases and exports, over time, without limit. Neither agency regulates federal timber that has been acquired through intermediaries as replacement for exported private timber.

-- Second, the control mechanisms both agencies use to monitor the level of private timber exports are vulnerable because they rely almost solely on reports from purchasers. The accuracy of these reports is generally not tested or audited. Both agencies also depend on members of the industry to inform them of suspected violations. To the extent that inaccurate reporting occurs and independent verification does not occur, the Forest Service and the Bureau have little assurance that the regulations are being followed.

-- Third, enforcement of the regulations is difficult because the historic export levels are established by geographic area, the boundaries of which is often vague and, therefore, disputable. Also the penalties available to the government for violations of the regulations are limited.

Before elaborating on these points, we would like to provide some background on the federal timber legislation and to explain briefly the regulations governing replacement of exported private timber with federal timber.

BACKGROUND AND
LEGISLATIVE RESTRICTIONS

In October 1973, a provision was attached to the Interior and Related Agencies Appropriations Act of 1974 that, in effect, prohibited the export of any unprocessed timber from federal lands in the western United States.[2] This provision has been attached to all subsequent Interior and Related Agencies Appropriations Acts.

As written, the provision also prohibited purchasers from using timber harvested from federal lands in their processing plants while exporting private timber that could have been used in those plants. However, in a February 1974 letter to the Chief of the

[2]The provision specifically identifies this as those federal lands in the contiguous 48 states west of the 100th meridian.

Forest Service, the Chairman, Subcommittee on Interior and Related Agencies, House Committee on Appropriations, explained that the Committee intended to allow historic patterns of trade to continue without disruption. According to the Chairman, this provision was intended to prohibit firms in the export trade from increasing future log exports by replacing private timber with federal timber.

The agencies developed regulations that permitted firms to maintain both their historic export levels and their purchases of federal timber. The regulations prohibit what is called direct substitution--that is, using federal timber to exceed the level of replacement established by historic purchasing and exporting patterns. The regulations also prohibit companies that do not have historic exporting patterns from replacing private exported timber with federal timber.

Over half of the permitted timber replacement using Forest Service timber occurs in Washington State; the remainder occurs in California and Oregon. All of the replacement using Bureau timber occurs in Oregon. According to Forest Service records, 53 firms in California, Oregon, and Washington have combined annual replacement quotas of nearly 570 million board feet. The Bureau could not provide information on the total amount of annual replacement quotas for its timber purchasers because the quotas were constantly changing as export sales were made.

To provide a perspective on the amount of replacement taking place, we obtained information covering a 2-year period. In 1987, 9 companies exported private timber and bought Forest Service and/or Bureau timber for domestic processing. These companies exported a total of 128 million board feet of private timber and purchased 189 million board feet of federal timber. In 1988, 7 companies exported 92 million board feet of private timber and purchased 235 million board feet of federal timber.

Another type of substitution, commonly referred to as indirect or third-party substitution, is not covered by the regulations. In this type of substitution, a purchaser of federal timber resells the timber to a company that is ineligible to buy it directly from the federal government because of its private timber-export activity. The company buying the timber from the original purchaser substitutes it for private timber normally used in its processing plants and then exports this private timber. However, the company is prohibited from directly exporting the federal logs.

The total amount of third-party substitution of federal timber is not precisely known. In 1987 and 1988, the Forest Service estimated 107 million board feet and 114 million board feet, respectively, in third-party substitution in Washington and Oregon. Bureau officials in Oregon had no statistics on such substitution but believed it to be limited.

AGENCY REGULATIONS DIFFER

The Forest Service established its regulations in 1974; the Bureau established its regulations in 1976. Despite their common origin, the two sets of regulations differ significantly, with respect to computing what the regulations call "historic levels" of trade. These levels serve as the basis for computing quotas that determine the maximum amount of federal timber that can replace exported private timber.

Forest Service regulations define the historic levels as the average annual volume of unprocessed timber purchased and exported during calendar years 1971-73. Replacement quotas are limited to whichever is less: 110 percent of the historic level of exports or 110 percent of purchases. Exceeding this level constitutes direct substitution, which is prohibited.

Although, the Forest Service's definition of the historic levels makes it difficult for companies to increase their replacement levels, they can manage to do so by purchasing other companies that have established historic quotas. For example, when two companies with separate replacement levels totaling 62 million board feet a year recently combined, the new replacement level rose to 80 million board feet a year. One of these companies had higher purchase levels than exports; the other had higher exports than

purchase levels. The combination of the two produced the higher replacement level.

By contrast, the Bureau defines historic levels as the volume of purchases and the volume of exports made during the 12 months preceding the last export date. Accordingly, a purchaser would have to exceed its annual historic levels for both purchases and exports to be in violation of the Bureau regulations. These regulations, in effect, permit purchasers to increase either their annual purchases or annual exports over the prior historic level.

Under this definition, a purchaser can increase Bureau timber purchases while holding private exports constant in the first year, purchase Bureau timber at the same level the second year while increasing exports, increase Bureau purchases again the third year while holding exports constant, and continue this pattern indefinitely. This practice is called "ratcheting." Thus, the Bureau's regulations allow companies to increase their federal timber purchases and private export volumes, over time, without limit.

An example will clarify how ratcheting works. Before 1980, a certain company did not have a historic level of timber exports. In 1980, this company exported 8 million board feet of private timber and purchased 68 million board feet of Bureau timber. By

1985, the company had increased its exports to 92 million board feet while continuing to buy Bureau timber.

The Bureau's Oregon State Office proposed changes in Bureau regulations in 1986 that would have made this practice more difficult. In September 1989, a Bureau official said that the impetus behind the proposed changes died when the company sold its processing plant and stopped buying Bureau timber. The Bureau and the Department of Interior's Assistant Secretary for Land and Minerals Management decided not to pursue changes to the regulations. While this was the only company that has taken significant advantage of increasing its historical levels under the Bureau's regulations, the potential still exists for other companies to take advantage of the regulations.

CONTROL MECHANISMS FOR MONITORING COMPLIANCE ARE VULNERABLE

To monitor compliance, both agencies require the purchasers to submit certified reports showing their export activities. However, officials of both agencies said that they generally do not verify the reported amounts by independent test or audit. In addition, they said that they rely on members of the industry to inform them of suspected violations by other members.

These limited control mechanisms are vulnerable because purchasers could report false information on their export activities that could go undetected. For example, in two recent instances, purchasers had submitted the required reports to the Forest Service, but had omitted the sections indicating private exports. Both companies had been exporting and were suspected of exceeding their historic quotas. When the Forest Service requested and finally received the completed reports, both companies were found to have exceeded their quotas.

In our opinion, good internal controls including at least selective testing of information submitted by the companies would allow the agencies to have better assurance that the regulations are being followed. Bureau officials told us that their regulations require purchasers to retain records of Bureau timber acquisitions and private timber exports for 3 years. However, they said that they have not audited the purchaser's records. Forest Service officials said that they do not routinely verify the information reported. Instead, they audit a purchaser's records only when they suspect violations.

According to an industry expert, because agencies rely on the industries to inform them of suspected violations by other companies, violators often continue their illegal practices for lengthy periods before the government can be convinced that violations are occurring. For example, a case of possible illegal

substitutions that occurred in 1986, 1987, and 1988, was brought to the Forest Service's attention in the spring of 1988 but was not resolved until August 1989.

ENFORCEMENT ACTIVITIES AND PENALTIES ARE LIMITED

In addition to problems in detecting violators, the Forest Service and the Bureau encounter difficulties in enforcing regulations when violations are found. First of all, the boundaries of the geographic areas used to determine the historic export quotas are often vague and disputable. These general geographic areas, called tributary areas or marketing areas, are the designated territory for a processing facility's log supply. Ordinarily, tributary area boundaries are not specified until a purchaser makes a request for assistance or a complaint is received. As a result, detecting a violation is difficult.

Furthermore, unless criminal intent and/or fraud can be proven, the penalty for violation of log export regulations--the cancellation of related federal timber sale contracts or non-award of pending contracts--is generally inconsequential. A Forest Service official said that if contracts are cancelled, the government may resell the contract. If the proceeds on resale are less than the current contract values at the time of termination, the violator can be charged damages for the difference. He stated

that if the contract sells for the same or higher price, there are no damages. For more serious offenses, violators can be debarred or suspended from bidding on future awards of federal timber contracts.

From 1981 to August 1989, the Forest Service and the Bureau identified eight instances involving seven purchasers, in which purchasers of federal timber had allegedly or actually violated substitution rules. The agencies took no action against two purchasers because the violations were considered minor. The agencies cancelled the affected federal timber sale contracts for the other five purchasers. However, in only one instance could the cancellation be considered to have a significant effect on the purchaser: forfeiture of the costs that had already been incurred for site preparation and logging roads.

Officials of both agencies advised us that no purchasers have been debarred for substitution violations since the regulations have been in effect. However, as of August 1989, a Forest Service official stated that the decision on debarring one violator was still pending. In addition, Bureau officials stated that this same violator has been suspended for one year.

CONCLUSIONS AND RECOMMENDATIONS

We have not reviewed the merits of the policy of banning the export of federal timber. Nor did we review the use of historic levels as determining the basis for the replacement of federal timber for exported private timber. If, however, the Congress desires to effectively limit the export of federal timber, several steps should be taken. It is clear, first, that the implementing regulations adopted by the Forest Service and the Bureau are inconsistent and need to be made uniform. The Bureau's regulations allow companies to increase their levels, over time, without limit; whereas the Forest Service limits the levels to the 1971-73 period. In addition, penalties for noncompliance should be increased to encourage compliance. Furthermore, both agencies' monitoring mechanisms need to be improved and strengthened.

Accordingly, we recommend that the Congress take action to make changes in the current legislation to: (1) clarify its intent with regard to the use of historic levels which serve as the basis for the replacement of federal timber for exported private timber and (2) establish appropriate penalties for those companies that violate the law. In addition, we recommend that the Secretary of Agriculture and the Secretary of the Department of the Interior direct the Forest Service and the Bureau, respectively, to institute improved internal controls which would include at least selected testing of information provided by the companies.

This concludes our prepared statement.

National Association of Stevedores
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STATEMENT FOR THE RECORD IN OPPOSITION TO S. 754 AND S. 755

BY THE NATIONAL ASSOCIATION OF STEVEDORES before the

SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY of the SENATE BANKING COMMITTEE

November 7, 1989

Dear Mr. Chairman and Members of the Subcommittee:

The National Association of Stevedores (NAS) is opposed to the two log export ban bills -- S. 754 and S. 755 -- for two principal reasons: one, because of the harm both bills would inflict on the stevedore/marine terminal industry and on the trade interests of the United States; and two, because of the dubious Constitutionality of S. 755.

The NAS represents the privately owned stevedore and marine terminal industry of the United States, companies which handle waterborne cargo, i.e., international and domestic commerce. The industry is an indispensable link in the transportation chain and provides a necessary service to the U.S. economy. NAS companies operate on all four seacoasts and in the States of Alaska and Hawaii, in the Commonwealth of Puerto Rico and at various inland ports. They employ thousands of longshoremen daily, and have extensive investment in their facilities and equipment. The human and financial commitment is considerable.

Most international trade is waterborne. Thus, NAS companies are intimately familiar with the business of trade. The NAS supports the unimpeded flow of trade. Restrictions on trade, whether imports or exports, affect the industry adversely and directly, cause the loss of business and jobs, and have a negative ripple effect on the U.S. economy.

The NAS finds no justification to impose export restrictions on logs. NAS member companies handle the export of logs not only in the Pacific Northwest and Alaska but also in several other States. The apparent intent of S. 754 and S. 755 -- to subsidize

the Northwest forest industry by restricting exports -- would not promote more trade in forest products. Rather, they would reduce that trade and undermine the credibility of the United States in seeking through the GATT and other international negotiations to open up the markets of our trading partners.

S. 755 is especially troublesome because it would fragment U.S. trade policy and would violate both the letter and the spirit of the Constitution. Specifically, Article 1 Section 8, Clause 3 -- the Commerce Clause -- which gives the Congress "Power to regulate Commerce with foreign Nations, and among the several states, and with the Indian Tribes;"

The reason the Framers gave Congress the sole and exclusive power to regulate commerce with foreign nations, with no concurrent state power, was that "the Federal Government must speak with one voice when regulating the commercial relations with foreign governments," Michelin Tire Corp. v. Wages, 423 US, 276, 285 (1976).

The Framers of the Constitution gave the exclusive power to regulate foreign commerce to the federal Congress also because they feared that the coastal states would take advantage of their geography to the disadvantage of the interior states. Thus, in addition to the Commerce Clause, the Framers provided that the federal Congress had the sole power to lay and collect "Taxes, Duties, Imposts and Excises," but on the condition that they be uniform throughout the United States (Art. 1, Sec. 8, Cl. 1). The Framers also limited the power of Congress by prohibiting the "laying of Taxes or Duties on Articles exported from any State" (Art. 1, Sec. 8, Cl. 1) and the preference of "a Port in one State over those of another" (Art. 1, Sec. 9, Cl. 6). However, the Framers permitted the States to lay imposts or duties on imports or exports to the extent "absolutely necessary for executing its inspection Laws", but only with control by the Congress. Further, any net excess of funds collected by the States "shall be for the Use of the Treasury of the United States." (Art. 1, Sec. 10, Cl. 2).

It is beyond question that the Framers of the Constitution did not want the States involved in the regulation of foreign commerce, and the only specific exception is the limited permission to raise funds to pay for absolutely necessary inspection services.

Honoring the philosophy of the Framers and recognizing that the Federal Government must speak with one voice with respect to foreign commerce, the Supreme Court has held that State actions which affect foreign commerce are subject to closer Constitutional scrutiny than State actions which affect only interstate commerce, Reeves v. Stake, 447 US 429, 438 (1980). Thus, the Court found unconstitutional a property tax imposed by the State of California on international shipping containers transiting the state, Japan Line, Ltd. v. County of Los Angeles, 441 US 434 (1979). In so doing the Court stated:

> ".. California's tax prevents the Nation from 'speaking with one voice' in regulating foreign trade." (Id. pg. 452)

and

> "If other States follow California's example (Oregon already has done so), foreign-owned containers will be subjected to various degrees of taxation, depending on which American ports they enter. This result, obviously, would make 'speaking with one voice' impossible. California by its unilateral act, cannot be permitted to place these impediments before this Nation's conduct of its foreign relations and its foreign trade." (Id. pg. 453).

Following that same premise, from which it has not deviated in almost 200 years, the Supreme Court found unconstitutional a State's (Alaska) attempt to ban the export of unprocessed logs grown on state-owned lands, South-Central Timber Development, Inc. v. Wunnicke, 467 US 82 (1984), stating at page 100:

> "It is a well-accepted rule that state restrictions burdening foreign commerce are subjected to a more rigorous and searching scrutiny. It is crucial to the efficient execution of the Nation's foreign policy that 'the Federal Government... speak with one voice when regulating commercial relations with foreign governments'." (Emphasis supplied, citations omitted).

In Part II of the Court's opinion the plurality of the Court discussed at some length the Commerce Clause and the relationship of State and Federal regulation of interstate commerce, and at pages 87-88 stated:

> "Although the Commerce Clause is by its text an affirmative grant of power to Congress to regulate interstate and foreign commerce, the Clause has long been recognized as a self-executing limitation on the power of the States to enact laws imposing substantial burdens on such commerce. (Citations omitted). It is equally clear that Congress may 'redefine the distribution of power over interstate commerce by 'permit[ting] the states to regulate the commerce in a manner which would otherwise not be permissible.'" (Emphasis supplied, citations omitted.).

The plurality suggests that Congressional approval constitutionally might be affirmatively given to a State's policy which has ramifications beyond the Nation's borders notwithstanding its statement that "The need for a consistent and coherent foreign policy which is the exclusive responsibility of the Federal Government..." (Id at page 92). The plurality also noted that congressional authorization "not be lightly implied", to which the NAS would add "nor lightly given".

Even if the Congress could redefine the distribution of power to regulate foreign commerce without offending the Commerce Clause, the Congress should not. The proponents of the bill have not demonstrated sufficient justification to reject the clear intent of the Framers of the Constitution concerning foreign relations and trade. As the Supreme Court said, the one voice of the federal government is "crucial."

Furthermore, authorizing any state to impose a log export ban would be bad precedent. What other commodities would be subjected to bans and from what States? The increasing fragmentation of U.S. trade policy would brand the U.S. as an unreliable and therefore inefficient source of goods and services. We would look silly to our trading partners because of our undependability and because of our preaching about open markets to other countries.

In conclusion, we urge you and your subcommittee to reject S. 754 and S. 755.

Respectfully submitted,

Thomas D. Wilcox
Executive Director/General Counsel

November 6, 1989

The Honorable Paul S. Sarbanes
Chairman, Subcommittee on International
Finance and Monetary Policy
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Senator Sarbanes:

The National Forest Products Association wishes to submit our views for consideration by the Subcommittee on S. 754 and S. 755 which would restrain the export of raw logs from state and federal lands.

NFPA is a national industry trade association which represents the interests and views of owners and managers of forest lands, manufacturers of forest products, and affiliated regional and product associations. Our membership includes over 750 direct and associated company members, and over 65 association and allied members.

Following is the position taken by NFPA, and we would urge the Subcommittee to give careful consideration to these principles outlined below during the consideration on S. 754 and S. 755.

1. NFPA believes that the overriding problem facing the forest products industry is the timber supply issue.

2. NFPA believes that private land owners should have unrestricted access to all markets.

3. NFPA recommends that the export ban on federal logs west of the 100th Meridian be made permanent in legislation.

4. NFPA believes that there should be a tightening of the substitution process, and urges Congress to direct the Forest Service and the Bureau of Land Management to modify the substitution regulations in accordance with the following principles:

NATIONAL FOREST PRODUCTS ASSOCIATION
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A. <u>There should be one set of regulations and one definition of substitution used by both the Forest Service and the BLM.</u> NFPA believes that the use of two different definitions is causing confusion and that the BLM definition in particular is too loosely drafted and applied.

B. <u>The process for defining tributary areas should be an open process.</u> NFPA believes that a good deal of controversy and misunderstanding surrounding the substitution regulations is the result of conflicts over the designation of tributary areas. NFPA urges that the current mechanisms for making these designations should be replaced by a more open process. This would likely take the form of an agency decision on a company proposal, with public notice, an opportunity for challenging any final decision.

C. <u>Reporting requirements should be strengthened.</u> NFPA believes that increased reporting and recordkeeping are keys to insuring stricter enforcement of the process as it is refined.

D. <u>Administrative penalties for failure to abide by the substitution and reporting requirements should be developed, implemented, and strongly enforced.</u> NFPA believes that there is a need to provide the Forest Service and BLM with the authority to levy fines or other financial penalties, in addition to current authorities to debar purchasers, for violations of the substitution regulations.

E. <u>NFPA recommends that the new substitution rules specify a one-year moratorium</u> from the time that a company ceases exports, until the time that it can begin federal timber purchases within areas affected by the revised substitution process.

We appreciate your assistance in having our comments incorporated into the official record on this legislation.

Thank you. I am,

Sincerely,

Scott Shotwell

Working for the Nature of Tomorrow.
NATIONAL WILDLIFE FEDERATION
1400 Sixteenth Street, N.W., Washington, D.C. 20036-2266 (202) 797-6800

STATEMENT OF

JAY D. HAIR

PRESIDENT

NATIONAL WILDLIFE FEDERATION

FOR THE WRITTEN RECORD

SENATE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS

SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY

REGARDING

S. 754 AND S. 755

NOVEMBER 7, 1989

Mr. Chairman, I am Jay D. Hair, President of the National Wildlife Federation, and I appreciate the opportunity to submit these remarks for the record of the November 7, 1989 hearing on S. 754 and S. 755.

The National Wildlife Federation is the nation's largest conservation/education organization with 5.8 million members and supporters, and affiliate organizations in 52 states and territories.

We are submitting this statement because of our deep concerns regarding management of the forests -- both public and private -- of the Pacific Northwest. We are troubled because these forests are being driven down an unsustainable course of timber resource extraction. This short-sighted management will not provide a healthy environmental or economic future for the region.

Passage of S. 754 and S. 755 will help address a major component of the region's timber management crisis. Current export policies are driving the mis-management of forest resources, undercutting employment opportunities, and undermining the economic future of the region. A sensible export policy is needed to help ensure the economic and environmental health of the Pacific Northwest. Passage of these two bills will help provide the necessary improvements to the export situation.

Currently, the forests of the Pacific Northwest are being harvested faster than nature can replace them. This over-harvesting is occurring on both public and private lands. It is driven, in large part, by the search for short-term corporate profits. The booming market for log exports to the Far East -- a result of the strength of the Japanese yen against the American dollar, as well as Japanese demand for high-quality lumber -- has led to record exports of unprocessed logs from the region's state and private lands. This demand has in turn deprived domestic mills of raw logs. This in turn increases the dependency of these mills on the dwindling ancient forests of our National Forest System.

Considerable controversy surrounds the management of the regions' forests. This controversy is particularly heated with regard to old growth or ancient forests. The ancient forests of the Pacific Northwest are a unique and dwindling national resource. Among the richest forest ecosystems in the world, ancient forests are comprised of magnificent trees 250 to 1,000 years old, towering some 200 feet and more above the lush forest floor. But these trees are only the most obvious features of a unique and complex ecosystem which supports plants and animals ranging from the microorganisms which renew life to the majestic Roosevelt elk which live on Washington's Olympic Peninsula. Many of these species have no other nesting, breeding, or foraging areas.

In spite of these values, 90 percent of the original Pacific Northwest ancient forests are gone, already felled by the timber industry. Even as these forests are being devastated, employment in the timber industry is steadily decreasing. The cause of the decline is found largely in the efforts of the industry to modernize domestic mills and increase raw log exports. Record exports of logs to Japan and other countries create an unjustifiable loss of domestic jobs. The Forest Service estimates that milling finished lumber provides at least three times as much employment as exporting logs.

As a result of current export practices, opportunities to diversify the region's timber industry through the creation of higher valued wood products -- furniture, for example -- are largely foregone. The Oregon Division of Forestry estimates that 43 percent of state timber harvests are exported unprocessed. Although the State Forester admits he has no formal tracking system for exports, industry consultants estimate that as much as 75 percent of the 1988 harvest from state lands was exported.

The high price that foreign buyers are willing to pay for the region's logs are creating inflationary pressures through the timber economy in the region. In a recent letter to President Bush, Rep. Peter DeFazio stated, "It is commonly estimated that a $100-$300/thousand board foot (mbf) differential exists between prices bid by log exporters and those bid by domestic processors. Domestic mill owners simply cannot compete for timber sales available for export." Rep. DeFazio uses the example of Coos County, Oregon, to illustrate the impact of these prices on local mills. Noting that timber from the Elliott State Forest traditionally supplied mills in Coos County, Rep. DeFazio states that 80 percent of the forest's harvest is exported. As log exports from the area have increased in the last ten years, fourteen Coos County mills have closed, seven of them in the last two years.

The decreased availability of private and state timber for domestic processing forces many firms to rely more heavily on National Forest timber. This increased demand for timber is stimulating overharvesting of the region's National Forests. As a result, only remnants of the original ancient forest ecosystem remain, and these are being rapidly fragmented and degraded by excessive logging. Ancient forest dependent species such as the northern spotted owl face possible extinction as the ancient forests they require are logged. If we are to protect the future productivity of our National Forests, we must reduce timber sales to sustainable levels. Improved export policies will ease domestic wood supply problems and allow for more sustainable management of our National Forests.

Passage of S. 754 and S. 755 will help correct the export problem and provide more sustainable management for the region's forests. S. 754 would make permanent the current ban on export of raw logs. This ban is now imposed annually through the appropriations process. S. 755 would grant the states authority to limit exports of logs harvested from state-owned lands. The U.S. Supreme Court has ruled that, absent federal legislation granting such authority, states cannot limit such exports.

These proposals, though modest in scope, are an important element in developing a sustainable forest management policy of the United States. The National Wildlife Federation therefore supports the enactment of these bills.

PlumCreek Management Company
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November 30, 1989

The Honorable Paul Sarbanes
Chairman
Subcommittee on International Finance and Monetary Policy
Committee on Banking, Housing and Urban Affairs
SD-534 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

On behalf of Plum Creek Timber Company, L.P. (Plum Creek) and its corporate subsidiary, Plum Creek Manufacturing, Inc., I would like to file this statement in response to testimony given by Representative Pat Williams (D-MT) at the November 7, 1989 hearing on log exports as addressed by Senator Packwood's legislation S.754 and S.755.

As Plum Creek has gone through a transformation in 1989, I thought it would be helpful to first give you some background on our new organization. Plum Creek, a master limited partnership, and Plum Creek Manufacturing were recently formed to acquire, own and operate the separate components of the timber business and wood products manufacturing operations, respectively, of Plum Creek Timber Company, Inc. Plum Creek is now publicly owned with an estimated 27,000 limited partners. Plum Creek and its subsidiaries have, in the aggregate, approximately 1,800 employees of which in excess of 80 percent are located in Montana.

Plum Creek is the second largest private timberland owner in the Pacific Northwest and one of the largest private timberland owners in the United States. Plum Creek's timberlands are geographically segregated into two areas, the Cascades Region and the Rocky Mountain Region, which contain, in the aggregate, an estimated 9.6 billion board feet (bbf) of merchantable softwood timber. The Cascades Region, located in western Washington, encompasses approximately 338,000 acres and 2.9 bbf of timber. The Rocky Mountain Region, located in northeastern Washington, northern Idaho and western Montana, consists of approximately 1.1 million acres and 6.7 bbf of timber and is a distance which averages 400 miles from the Cascades Region.

Plum Creek Manufacturing owns five sawmills, two plywood plants and a medium density fiberboard (MDF) plant in Montana. In addition, Plum Creek Manufacturing owns a sawmill in Northeast Washington and a chip plant in Cle Elum, Washington. Plum Creek Manufacturing has recently completed a sawmill in Kalispell, Montana, a plant in Spokane, Washington, for remanufacturing finished products for the export market and has increased the capacity at its MDF plant.

In his testimony, Congressman Williams made several assertions concerning the substitution and financial practices of Plum Creek. First, according to Congressman Williams, the impact of Plum Creek's investments in plants is, allegedly, to put small timber companies in Montana out of business because "they cannot compete with the bids of the giant timber companies of the West Coast," and their "newly mechanized mills with enormous capacity." The implications of Congressman Williams' statements are that becoming more productive, providing secure jobs for his constituents and becoming more competitive are somehow wrong. In the last five years, Plum Creek has spent approximately $50 million to modernize and improve the efficiency of its plants, thus enabling greater employee productivity. Only by becoming more productive will we be able to provide truly secure jobs for our employees and continue to be competitive in domestic and export markets for our finished products.

Congressman Williams' assertion that big companies like Plum Creek are putting small mills out of business because they cannot afford to match bids for federal timber misses the point. Companies like Plum Creek are not allowed to bid on a substantial portion of Federal timber under the small business set aside rules. For example, in the Flathead National Forest, 64 percent of federal timber sales are set aside exclusively for small mills. In the Gallatin National Forest, 76 percent is set aside. The shortage of supply experienced by small mills is caused because Federal timber sales have been drastically reduced. During FY 1989, the USFS in Region 1 sold only 80 percent of the allowable sale quantity (ASQ). The Flathead National Forest, in particular, sold only 31 percent of its ASQ. In Plum Creek's case, purchases of USFS timber in Region 1 have gone from 124 mmbf in 1983 down to 50 mmbf in 1989.

Second, Congressman Williams insinuates that Plum Creek incurred an unhealthy level of debt to avoid hostile takeovers and that we are exporting logs to finance our debt payments. That is not true. Our debt to capital ratio of 55% is prudent for a business of our type. We did not issue junk bonds. Our lenders -- a group of conservative insurance companies -- would not have extended credit to us at favorable rates had they anticipated an inability on the part of Plum Creek to service its debt. Moreover, repayment of the principal of this debt will not even begin for another three years. The fact is, we are exporting logs harvested from our Cascade Region because it makes good business sense to do so, not because we are trying to keep up with debt payments.

Congressman Williams acknowledges that Plum Creek does not export the federal logs that it buys. Indeed, Plum Creek has scrupulously abided by the substitution rules to ensure that those logs are processed domestically. Please note that Plum Creek Manufacturing has been increasingly successful in exporting its finished products despite discriminatory tariff and other trade barriers. Today we export 24 percent of our medium density fiberboard and over 11 percent of our lumber. We are the leader in Montana in exporting value added finished wood products. This success has been due, in large part, to the relationships we have developed in exporting logs.

Finally, Congressman Williams asserts that "some of the last great pristine unroaded areas left in the United States are being clear cut." This is simply not true. Montana has 6 million acres of unroaded land which, until a wilderness bill is passed, cannot be roaded or logged. Moreover, in Montana alone there are 12 wilderness areas covering more than 3.3 million acres and another 1 million acres in national parkland where the forests are

preserved forever. In the Northwest 4.2 million acres of old growth are preserved. That is equivalent to a strip of forest two miles wide stretching from Seattle to New York.

In summary, Plum Creek strongly objects to the statements made by Congressman Williams and disagrees with his assertion that the substitution rules, particularly with regard to tributary areas, need to be geographically broadened. While we support the strict enforcement of substitution rules and the ban on the export of federal timber, we believe there is no justification to further restrict the ability of companies like Plum Creek to bid on Federal timber.

Sincerely,

James A. Kraft

James A. Kraft
Vice President
Law and Corporate Affairs

THE PRO TRADE GROUP

STATEMENT FOR THE RECORD
BY THE PRO TRADE GROUP
IN OPPOSITION TO S.754 AND S.755

NOVEMBER 7, 1989 HEARING BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY

OF THE SENATE BANKING COMMITTEE

The Pro Trade Group is a coalition of companies and organizations that represent U.S. exporters, importers, consumers, manufacturing, agricultural, retailing, service and civic interests. The Pro Trade Group has provided information and prepared position papers for Members of Congress and Administration officials over the past years in an effort to help develop responsible and constructive trade legislation. We oppose the passage of S.754 and S.755 because they are in direct conflict with the U.S. trade policy of opening markets and expanding international trade.

One of the practical negative effects of this legislation is its consistency with the thrust of our trade policy efforts. Our efforts over the last several years reflect a strong commitment to liberalize trade, not to restrict it. Instead of subsidizing certain domestic mill owners by restricting log exports, we should be working toward increasing exports of value-added wood products to benefit the entire industry and the national economy.

The business community supports the GATT and other multilateral solutions as a way of achieving our trade policy. A major focus of the current GATT Round, as well as other multilateral and bilateral trade negotiations, has been to reduce or eliminate trade barriers. S.754 and S.755 would create restrictions on log exportation and thereby create trade barriers. The U.S. has placed every type of trade restriction, including import and export controls and other trade-distorting practices on the negotiating table. This is true for all agricultural products, including forest products. Export restrictions are no less trade-distorting than import restrictions. This proposed legislation obviously contravenes at least the spirit of the GATT.

The letter of the GATT would also be violated by these bills. The recent "standstill" agreement would be violated because these bills would impose or authorize the imposition of trade restrictions. This legislation undermines our avowed commitment to trade reform and compromise our credibility in negotiations. These bills are a step backwards in our goal of further trade liberalization and must be opposed.

In light of the above, we believe that S.754 and S.755 are inconsistent with, if not in violation of, the GATT. These bills undermine U.S. negotiations in the Uruguay Round and the USTR's implementation of the U.S. trade policies and regulations, especially Super 301. Further, S.754 and S.755 pose a dangerous threat to the future of agricultural commodity exports, which have been the focus of U.S. reform efforts in the Uruguay Round.

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Another practical consideration regarding these bills is the serious risk of retaliation on the part of our trading partners. Countries that now import U.S. logs and processed wood products might react by imposing new restrictions of their own. Those restrictions would not necessarily be targeted only at wood products. The image of U.S. exporters as reliable suppliers would be seriously damaged if these bills were to be enacted.

By authorizing the states to regulate log exports, S.755 would strip the USTR of any meaningful role in determining our national policy regarding an important U.S. export commodity. USTR's lack of authority would extend both to the ongoing GATT Round as well as specific bilateral negotiations with key log and lumber producing importing countries. Authority over international trade rests with the federal government not with the 50 individual states.

In view of the progress we have made in opening and expanding foreign markets, it would be wholly inappropriate at this juncture to allow these new restrictions. Countries that have already begun to liberalize their markets might reverse that trend in response to enactment of such protectionist legislation. At a time when our trade deficit is so monumental, we oppose any legislation that would result in curbing the free flow of international commerce. It must always be remembered that trade is a two-way street and that action taken going one way will have a direct impact on the way back.

It must also be remembered that in response to a petition by a group of Northwest mill owners, the Department of Commerce has convened a short supply proceedings for log exports from public lands in Washington and Oregon pursuant to the Export Administration Act. Hearings and public comment on these proceedings will be completed by December 13, 1989, with a determination by the Department of Commerce thereafter. Accordingly, Congress should wait until the Department of Commerce proceedings have been completed before further legislative consideration of log export restrictions.

These bills will disrupt our GATT negotiation position, undermine the implementation of our trade policy, and exacerbate our trade deficit. Moreover, there is absolutely no reason for Congress to act until the administrative proceeding at the Department of Commerce has been completed. As such, we are strongly opposed to this legislation and urge Congress to turn its attention to more constructive approaches to the problems raised by all those concerned.

The Pro Trade Group appreciates your consideration of these points. Thank you.

Sincerely,

William Kay Daines

Thursday, November 2, 1989 The Seattle Times D 7

Joint committee won't propose log-export ban

Other alternatives to be studied

by Jim Simon
Times Olympia bureau

OLYMPIA REPORT

OLYMPIA – A special legislative committee studying timber supply problems has decided to pass when it comes to dealing with the most explosive item on its agenda – log exports.

The Joint Select Committee on Domestic Timber Processing won't be proposing any ban or restrictions on exports of raw logs from state lands – a step many sawmill owners have been urging.

Five of the six members of the panel said at a meeting in Olympia yesterday they oppose restrictions at this time. The group held public hearings in logging towns throughout the state during the summer.

Most argued that while the state should concentrate on helping independent mills find more timber in the next year or so, clamping down on exports would be a premature fix that could backfire.

Sen. Neil Amondson, R-Centralia, acknowledges that emotional pressure for a ban is growing, noting recently that the issue of log exports is to the timber industry what "abortion is to the Republican Party."

But Amondson, chairman of the committee, said he can't support "making a long-term decision on a ban with the wild swings we've seen in the (timber) market during the last few years. We really don't know what the consequences are."

Instead, the committee says it is studying other alternatives to present during the next legislative session, including tax credits or deferrals for domestic processors, short-term loans to mills, increased harvest levels and compensating counties for lost revenues if they set aside timber for local mills.

Rep. Doug Sayan, D-Grapeview, Mason County urged the committee to consider restrictions. At one point, Sayan clashed angrily with fellow Olympic Peninsula lawmaker, Rep. Jim Hargrove, who opposes such a move.

Sayan's primary reason for supporting restrictions is the need for

saving jobs in employment-starved timber towns. A Forest Service study says 700 mill jobs would be saved or created by a ban on state exports, and some proponents say the figure is much higher.

But members of the committee argued they are powerless to move against exports because federal law prohibits states from restricting foreign trade. Legislation now under consideration by Congress would allow states to ban export from its own lands.

'We really don't know what the consequences are.'

Sen. Neil Amondson, R-Centralia

In June, Oregon voters overwhelmingly supported an advisory referendum against export of state logs. The Idaho legislature passed a similar measure last spring.

Even opponents such as Amondson believe Washington voters would also support such restrictions.

The state Department of Natural Resources says 65 to 70 percent of trees cut from state lands are shipped overseas without ever running through a local sawmill. That percentage has increased in recent years because of a booming market in Japan and other parts of Asia.

State lands make up about 16 percent of the total state harvest.

Committee member Sen. Patty Murray also expressed concern that a cutoff on exports would harm the state school construction projects, which are funded from state timber sales.

Restrictions have been fiercely battled for years by a coalition of large timberland owners such as Weyerhaeuser, export brokers, local ports and school officials. Both Gov. Booth Gardner and Public Lands Commissioner Brian Boyle oppose export restrictions because of free trade considerations.

They believe exporters and the U.S. government should push the Japanese to remove trade barriers against finished wood products.

But House Speaker Joe King recently became the first prominent state official to support such a move, calling for a gradual phase-out of exports of state timber.

Weyerhaeuser

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November 6, 1989

The Honorable Paul S. Sarbanes
332 Dirksen Office Building
Washington, D.C. 20510

Dear Chairman Sarbanes:

On behalf of the Weyerhaeuser Company, I would like to add this letter and attachment to the record for International Finance and Monetary Policy Subcommittee of the Senate Banking, Housing and Urban Affairs Committee on November 7, 1989. The hearing relates to S 754 and S 755.

While Weyerhaeuser Company can support the provision in S 754 to make permanent the current federal log export restrictions, it strongly opposes the remaining sections of S 754 and S 755. We believe that neither bill addresses the real problem facing the western forest products industry -- reductions in timber harvest from federal lands.

Weyerhaeuser Company also believes both measures are extremely risky to the industry's significant international trade of both logs and finished products, and they ignore the important benefits provided by the log trade. Particularly significant is the role unrestricted markets play in providing the incentive to invest heavily in a crop that does not return significant cash flows for 45 to 50 years. Without the ability to access international markets, investment in Northwest forests will be reduced, eroding the region's future timber supply.

We urge you to oppose S 754 and S 755.

John P. McMahon
Vice President Timberlands

I. Introduction

Weyerhaeuser Company owns 2.7 million acres of forest land in Washington and Oregon and operates 8 softwood and 3 hardwood sawmills, a veneer plant, a plywood operation, lumber finishing operations, specialty plants and 8 pulp and paper mills in these two states. In the last decade, Weyerhaeuser has spent over 1.5 billion dollars constructing and modernizing these facilities. During that same period, we have spent more than $500 million funding long-term forest management of our lands in the Northwest. These investments position the company to respond to the increasingly competitive domestic and international markets that we serve. Weyerhaeuser believes S 754 and S 755 would act as strong disincentives to continue to make these types of investments.

S 754 would make permanent the restrictions on the export of logs from federal lands in the west and would require the U.S. Forest Service and the Bureau of Land Management to make changes to their substitution regulations. While we support making permanent the current federal ban, we believe that, as the bill is currently written, it would sharply curtail our ability to purchase logs for our mills in Washington and Oregon. It is because of this provision to restrict the efficient flow of domestic raw materials that Weyerhaeuser opposes S 754. Weyerhaeuser does, however, support the recent policy statement adopted by the Board of Governors of the National Forest Products Association to improve the current substitution regulations as long as these changes are accomplished administratively.

S 755 would enable individual states to restrict the export of logs from state-owned lands. Weyerhaeuser opposes S 755 because:

* We believe that State governments should not attempt to establish policies that interfere with interstate or foreign commerce. Such trade policies should be the sole responsibility of the federal government.

* The volume of state timber restricted from export will not be replaced by increased export sales of U.S. finished products. Our competitors in Canada, the Soviet Union, New Zealand and Chile are likely to be the principal beneficiaries of any restrictions that we impose on ourselves.

* It sends the wrong signal to our trading partners and could invite retaliatory measures against U.S.-produced finished forest product exports that our industry has worked for so many years to develop.

* It would result in an immediate negative effect on trust revenues from state lands -- an issue of particular significance in the state of Washington, where these revenues are especially needed for school construction.

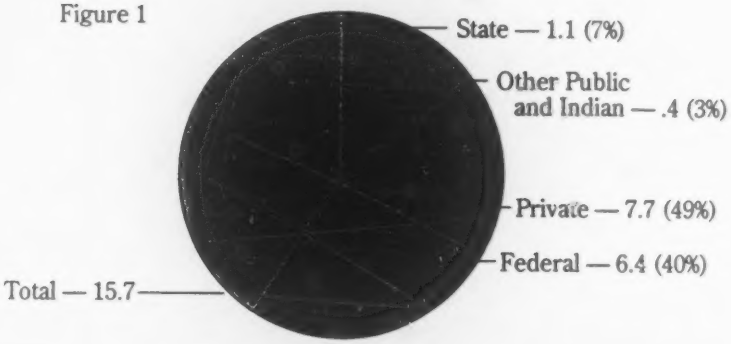
Before specifically addressing S 754 and S 755, it is important to understand the region's total timber supply and the relative position that log exports hold within the total demand for timber from these two states.

II. Regional Timber Supply

During 1988, the combined timber harvest of Oregon and Washington was 15.7 billion board feet (this includes preliminary 1988 data for Washington). Of this total, 6.4 billion board feet was supplied from National Forest and BLM lands, 1.1 billion board feet was harvested from state lands, 487 million board feet was harvested from other public and Indian lands and 7.7 billion board feet was harvested from private lands. (See Figure 1.)

Total Harvest — Wash. and Ore.
1988 Billions of Board Feet

Figure 1

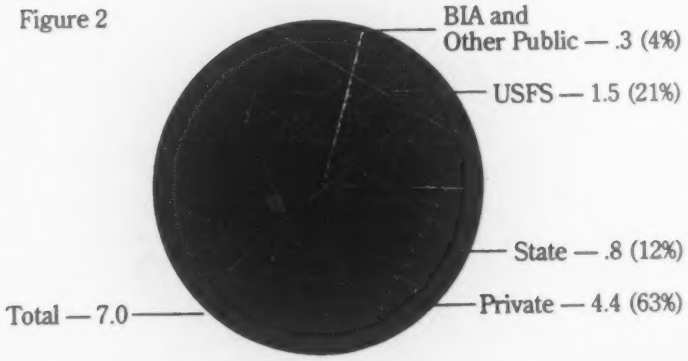


During 1988, 3.7 billion board feet of this 15.7 billion board feet harvested was exported as logs from the states of Oregon and Washington. Thus, log exports represented 24 percent of the total regional harvest in 1988.

Washington's 1988 total harvest was 7.0 billion board feet. Of this total, 1.5 billion board feet was harvested from National Forest lands, 826 million board feet from Washington's state-owned lands, 327 million board feet from other public and Indian lands and 4.4 billion board feet from private lands. (See Figure 2.)

Total Harvest — Wash.
1988 Billions of Board Feet

Figure 2



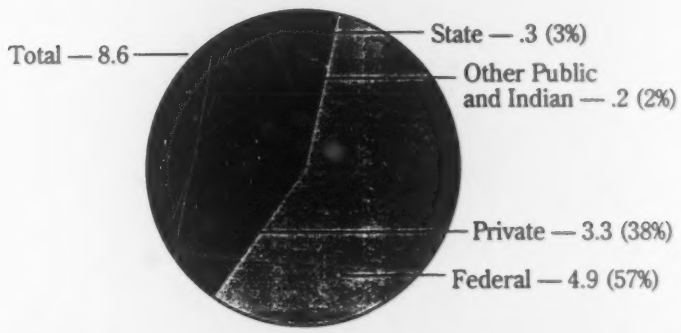
Of Washington's total harvest, 39 percent, or 2.7 billion board feet of logs were exported from the state in 1988. Approximately 500 million board feet of these log exports originated on state lands, with the remaining 2.2 billion board feet supplied from private and other non-federal lands. Therefore, of the total regional log export volume, Washington produced 73 percent. Log exports from Washington's state-owned lands accounted for 14 percent of the region's log exports and 7 percent of Washington's total timber harvest in 1988.

Oregon's 1988 total harvest was 8.6 billion board feet. 4.9 billion board feet was harvested from National Forest and BLM lands, 270 million board feet from Oregon State-owned lands, 160 million board feet from other public and Indian lands, and 3.3 billion board feet from private lands. See Figure 3.

Figure 3

Total Harvest — Ore.

1988 Billions of Board Feet

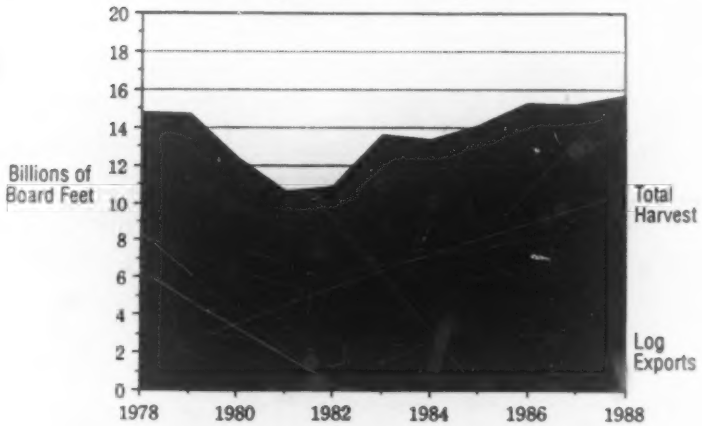


Of Oregon's total harvest, 12 percent, or 1 billion board feet of logs were exported from the state in 1988. Approximately 100 million board feet of these log exports originated on state lands, with the remaining 900 million board feet supplied from private and other non-federal lands. Therefore, of the total regional log export volume, Oregon produced 27 percent. Log exports from state-owned lands in Oregon accounted for only 3 percent of the region's total log export volume and only 1 percent of Oregon's total timber harvest in 1988.

Clearly, log exports from state lands must be viewed in a very different context in each state. In Oregon, restricting these exports cannot begin to offset the reduced future harvests from the federal lands. However, in Washington, log exports from state-owned lands represent a significant part of the total forest products industry and restricting this trade will have a devastating impact on the state.

If log exports are examined in the context of total regional timber supply, they have consistently accounted for between 20 and 25 percent of the total harvest since the early 1970's. (See Figure 4.) Log exports are simply not the villain. Log exports have not accounted for the problems facing the industry, rather most people in the industry recognize that the real problem is the recent reduced harvests from the federal lands.

Figure 4
Total Harvest and Log Exports
Oregon and Washington



While it is necessary to understand log exports as a factor in overall forest products demand in the Northwest, it is even more important to understand what has happened to the total demand for Northwest forest products since the recession year low of 1982. Demand for forest products changes dramatically over the course of a typical business cycle. In 1982, for example, the harvest from all lands in Washington and Oregon was only 10.8 billion board feet (versus 15.7 billion board feet in 1988). Since then, the total demand for Northwest forest products has significantly rebounded. In Washington and Oregon, since 1982,:

* lumber production for the U.S. domestic market has increased from 7.1 billion board feet to 10.5 billion board feet in 1988;

* shipments of export lumber have increased from 888 million board feet to 1.8 billion board feet;

* plywood and veneer production has recovered from 6.3 billion square feet in 1982, to 9.5 billion square feet today; and

* log exports shipments from the two states have increased from 2.6 billion board feet to 3.7 billion board feet in 1988.

This increased demand for forest products demonstrates that producers in the Northwest have regained their competitiveness and are able to compete with the Southeast U.S., Canada, the USSR, New Zealand and Chile.

In the Northwest, all of these demands are being supplied by the combined output of the National Forest, Bureau of Land Management, state, industrial and non-industrial timberlands. It is the total supply that we should direct our attention toward, rather than attempting to restrict access to overseas markets or to interfere with competitive flows of raw material within the Northwest.

As our industry looks at timber supply trends in Northwest, there is a great deal of uncertainty surrounding the amount of timber that will be sold from National Forest lands during the decade of the 1990's and beyond. This is the result of the combined effects of: 1) the National Environmental Policy Act of 1969; 2) the Endangered Species Act of 1973; 3) the National Forest Management Act of 1976 (NFMA) and other federal laws and regulations that the Forest Service must operate within.

If the current, draft, preferred NFMA alternatives are implemented, National Forest timber harvests in Washington will drop from 1.5 billion board feet in 1988 to 1.1 billion board feet in future years. In Oregon's National Forests, the timber harvest will drop from 3.5 billion board feet in 1988 to 3.0 billion board feet in the future. (See Figure 5.) This expected reduction in National Forest timber sales will be even greater if additional spotted owl habitat requirements are implemented.

Figure 5

U.S. Forest Service Harvest Levels

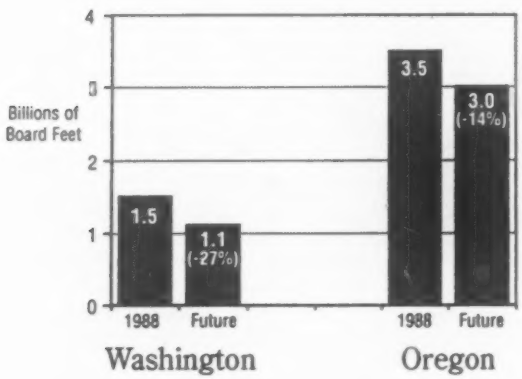
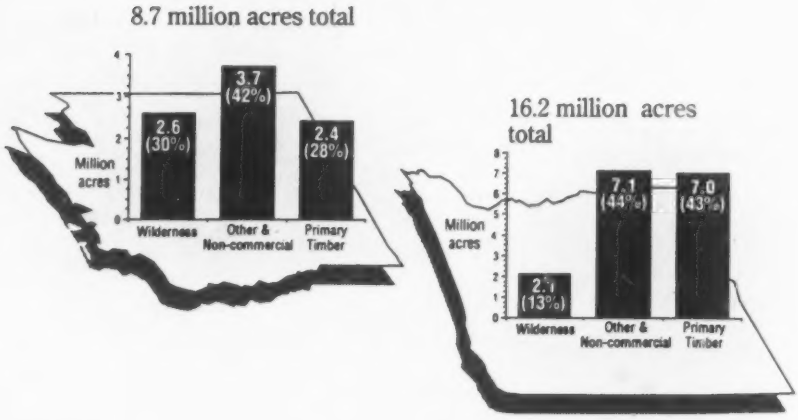


Figure 6 summarizes the allocated uses of Washington and Oregon's National Forest lands once the preferred NFMA plans are adopted. In Washington, fully 72 percent of the state's 8.7 million acres of National Forest land are already withdrawn from timber production, or primarily devoted to non-timber production. An additional 2 million acres of National Parks and National Monuments are reserved exclusively for recreation and wilderness use.

In Oregon, 13 percent of the state's 16.2 million acres of National Forest land are already withdrawn from timber production, or primarily devoted to non-timber production, with an additional 200,000 acres in Crater Lake National Park reserved exclusively for recreation and wilderness use.

Figure 6
U.S. Forest Service Land Allocation



Reductions in the annual harvest from federal lands are largely the result of public policy decisions. They have nothing to do with the physical availability of merchantable timber or the growth capacity of the lands. Long-term, the timber growing capacity of the federal lands under intensive management could allow increases in annual harvest, even with additional land dedicated to non-timber uses.

There is enough timber inventory and enough federally owned land area in the Northwest to satisfy both environmental and forest industry objectives if the Forest Service is allowed the latitude to manage the National Forest lands to the limits of its professional ability.

The environmental community wants protection of representative, old growth ecosystems, protection of endangered species and preservation of sufficient Wilderness areas to serve the needs of a growing U.S. population.

The forest industry needs assurance of a stable, predictable harvest from the region's National Forests, the ability to complete development of the National Forest road system, and the ability to have timber sale contracts awarded without fear of disruption due to appeals or litigation.

We believe that it is possible to satisfy both objectives if two conditions can be met:

1) The Forest Service must be allowed to make fundamental land allocation decisions through the planning processes prescribed by the National Forest Management Act and Forest Land Management Planning Act. There must be an established acreage base managed primarily for timber production.

2) The agency must then be directed and funded by the Congress to increase its forest management intensity, via proven silvicultural practices, to maintain and expand the annual timber harvest from the suitable portion of the land base that is managed for sustained timber production.

Forestland managers in the region know from experience that annual growth per acre can be increased by at least one-third through such techniques as:

- Rapid regeneration following harvest
- Use of genetically improved planting stock
- Control of unwanted, competing vegetation
- Pre-commercial and commercial thinning
- Fertilization on appropriate sites
- Reduced rotation ages on appropriate sites
- Full utilization of the timber harvested

The biological and economic potential exists to do this, and the technology is known and readily available, both within the public agencies and through the forestry schools in the region.

What is missing is a clear, national policy which enables the Forest Service to achieve increased timber output from the suitable lands of the National Forest system, while at the same time protecting ecosystems, endangered species, and wilderness requirements.

III. S 754 -- Eliminating "Substitution"

The export of unprocessed logs from western federal lands and the direct substitution of federal timber for exported private timber has been prohibited by Congress since 1973. We believe that the existing substitution regulations are achieving their intended purpose and that the tributary area requirements effectively give non-exporting firms preference for federal timber in areas directly influenced by log exports, while encouraging full utilization of National Forest and BLM timber. Weyerhaeuser Company opposes the sections within S 754 that would require specific, ill-defined changes to the existing regulations.

The "Substitution" regulations inherently interfere with the normal competitive marketplace. The issue is: How much efficiency should be sacrificed to reallocate federal timber from domestic mills owned by firms which may export private logs to other firms which do not. The federal origin logs must be manufactured domestically in either case. The question is, which domestic mills are allowed to process federal timber. Substitution regulations do not add any more timber to regional timber supply, but they do alter the competitive position between mills, and affect employment and communities in both Washington and Oregon.

A. What is direct and indirect substitution?

To understand substitution, it is necessary to make a distinction between direct substitution - which is prohibited in specified tributary areas, and indirect substitution - which has been permitted by law and by U.S. Forest Service regulations since 1973.

Direct substitution occurs when a firm increases its export of private timber in one geographic area while continuing to buy U.S. Forest Service timber in the same area, or increases its purchases of federal stumpage while continuing to export private logs in that same area. Under regulations in effect since 1973, some grandfathered firms remain eligible to bid for limited amounts of federal stumpage in the same geographic area where they export private timber, as long as they do not increase either their private log exports or their federal timber purchases. Weyerhaeuser Company has no grandfathered historical base share in any geographic area. Weyerhaeuser has made a conscious decision to discontinue private log exports from some areas, such as the Willamette Valley, in order to be eligible to compete for federal stumpage sales in that area. This decision is in full compliance with the law and regulations that have been in force since 1973, and fulfills the original Congressional intent behind the 1973 amendment.

Indirect, or "third-party", substitution occurs when an eligible firm purchases timber from federal lands and then sells some of the logs to a second firm which, because of its private log exports, could not have purchased the timber sale directly from the federal government. In these cases, although the second firm is ineligible to bid directly on federal timber sales in the area, it is permitted under the law and regulations to buy Forest Service origin logs from the first firm, if the first firm cannot use them in its own operations or otherwise desires to sell them. The federal origin logs must be processed within the U.S., no matter how many times they have changed hands.

B. Previous federal reviews find the existing regulations have worked as intended.

The U.S. Department of Agriculture clearly summarized the indirect substitution issue in a letter to Senator Hatfield in 1983. It stated in part:

> "Almost every sale in the Northwest involves species, sizes or grades of logs which cannot be efficiently processed in the purchaser's manufacturing facility. The timber industry in this region has developed well-functioning log markets which permit the movement of logs to the sawmills, stud mills, veneer mills, pulp mills, or other facilities to which they are best suited. This free log market contributes greatly to the competitive strength of the Northwest timber industry. The functioning of these log markets would be seriously disrupted if constraints on the free movement of logs were imposed."
>
> "The imposition of constraints on free log markets and the additional costs to the Federal Government involved in eliminating third-party substitution are not warranted."

A General Accounting Office study of this issue, released in January 1985, reconfirmed these statements about third-party substitution. It concluded that eliminating this practice would allow some firms to acquire federal timber at lower

prices, but would reduce government revenues and negatively impact firms that rely on open market sales and purchases of logs.

C. The volume of indirect substitution in Oregon is limited.

The same GAO study also found that total third-party substitution is approximately 100 million board feet annually, or about 2 percent of the western National Forest harvest. Further, it concluded that 90 percent of the indirect substitution occurs in Western Washington, mostly in the Grays Harbor area, where normal flows of logs are constrained by a specific sustained yield unit regulation.

The 1988 data, provided by the U.S. Forest Service, indicates that 127 million board feet of indirect substitution occurred. Again, the majority of this total, 76 million board feet, was on the Olympic National Forest. Thus, in 1988, indirect substitution represented less than 3 percent of the total harvest from the National Forests in Washington and Oregon. It should be emphasized that this 127 million board feet was not exported, it was processed in the domestic mill best suited to manufacture these logs. The issue is whether this raw material should only go to selected mills.

D. Indirect substitution maximizes the value and utilization of National Forest timber.

In our view, these domestic log markets - in which any firm may freely purchase Forest Service logs from third parties for use in domestic mills - are operating efficiently, are maximizing the value and utilization of the region's National Forest timber resources, and are providing most mills in the exporting region with the species and grades of logs best suited to their needs.

Maintaining open, competitive log markets is in the best interest of all segments of the Northwest forest products industry and is in the public interest. Additional restrictions would only serve to reallocate, in a less efficient, non-competitive manner, the wood currently available for domestic manufacturing. Indirect substitution should not be, and in reality is not, a factor in any current concerns about timber supply. The practice simply allows the logs - which by law must be processed domestically - to be processed through those domestic mills most suited to process them. Changing the existing substitution regulations would not add one log to regional timber supply.

E. Current rules serve their intended purpose by giving non-exporting firms preference for federal timber sales.

The current regulations do serve their intended purpose - giving non-exporting firms preferential access to federal timber sales. The original purchaser then can either process the logs or sell them to another domestic mill better suited to process them. Why shouldn't a federal timber sale purchaser be allowed to sell logs he cannot process efficiently, so long as they are processed domestically? Why shouldn't firms exporting some private logs be allowed to compete for federal origin logs on the open market as long as the logs will receive domestic processing?

In many cases, log exporting firms are providing domestic markets for marginal raw material to a variety of suppliers, thus optimizing utilization of the resource, and preventing waste of volume and value of National Forest timber. If adequate competitive markets are unavailable for this low-value material, much of it will remain in the woods, unutilized after harvesting, hampering regeneration, producing no return to the Forest Service, the U.S. Treasury or to local government and no useful products for consumers. Thus, unrestricted purchase and sale of federal origin logs help ensure the allocation of logs to the right mill to the economic benefit of everyone - the Forest Service, contract loggers, truckers, domestic processors and consumers.

F. Restricting indirect substitution would further "Balkanize" the industry and make it less efficient.

The real effect of banning "indirect substitution" would be to further divide processing mills into two categories, those entirely dependent on non-federal timber and those dependent almost entirely on federal timber. Inefficiencies would result from mills having to draw raw material from more distant sources in order to keep supplied with logs from a particular ownership category. In some cases, federal and non-federal logs, both bound for domestic mills, would pass each other going in opposite directions. The current regulations allow each facility to process the logs harvested closest to it.

In addition, further restrictions would be inconsistent with basic economic and legal concepts of market competition and free transferability of goods. There are strong public policies against restrictions on the rights of private parties to compete for goods, as evidenced by the antitrust laws and common law doctrines. The existing substitution regulations are an exception to fundamental policies favoring competition. It is our view that this exception should remain limited to sales of standing timber rather than be extended to logs, which have always been viewed as an interchangeable commodity in domestic commerce.

G. National Forest Products Association's position

Recently, the National Forest Products Association's Board of Governors unanimously adopted a position supporting the following changes to federal log export and substitution policy:

* Make the restriction on the export of federal logs permanent; and
* Direct the U.S. Forest Service and the Bureau of Land Management to modify their substitution regulations. The recommended modifications are:

  - Develop one set of regulations for both agencies;
  - Make the process for determining tributary areas open for public comment;
  - Strengthen the reporting requirements;
  - Strengthen enforcement;
  - Establish a one year moratorium between ceasing export of private timber and purchasing federal timber sales within the area affected by the revised substitution process.

Weyerhaeuser Company supports this National Forest Products Association position and believes that the two agencies should initiate a rulemaking process to achieve these changes through administrative action.

IV. S 755 -- Allowing States to Restrict Foreign Trade

S 755 would authorize individual states to prohibit the export of logs from state-owned lands. Weyerhaeuser strongly opposes this measure, believing that the many important benefits currently derived from this trade would be forgone, with only limited benefit to one segment of the industry. Further, we believe that the right to restrict foreign commerce should not be granted to individual states. Granting states this right would weaken the ability of the federal government to conduct trade negotiations and would make it very difficult to establish national policies to encourage trade.

Earlier, it was identified that 49 percent of the Northwest's timber harvest is contributed by private industry and an additional 7 percent is provided by state-owned lands. Logs from private and state timberland are freely exportable and approximately 600 million board feet is exported from state-owned lands in Oregon and Washington.

Those of us who are involved in the log export business believe that log exports directly benefit the Washington and Oregon economies.

* First, log exports play a crucial role in developing and maintaining trade relationships with Pacific Rim countries, which in turn have led to increased markets for processed wood products. For example, the value of softwood lumber exports, produced by Washington sawmills, has more than doubled since 1985 and now represents over $300 million in annual trade.

* Restrictions on log exports would risk undermining these trade relationships and cause overseas customers to seek more reliable trading partners for both logs and finished products, creating a great risk to our carefully built international trading relationships.

* Having unrestricted access to a full range of markets -- including log exports -- has provided both the incentive and the cash flow for state and private timberland owners, both large and small, to invest in long-term forest management.

* Through the inevitable cyclical downturns, log exports buoy the economy of many coastal communities when domestic demand for processed wood products falls.

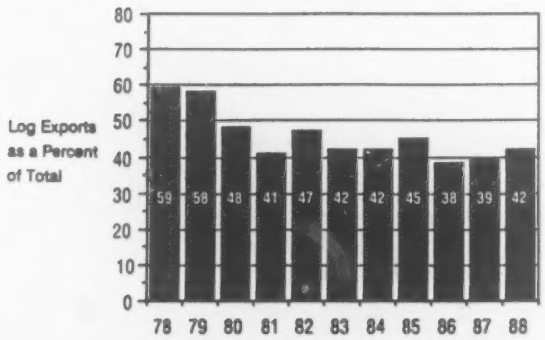
A. Log exports have helped build our international trade relationships.

Thanks in large part to log exports, Washington and Oregon have built up the trust and reliance of our Pacific Rim trading partners. It has taken many years to demonstrate that we are dependable suppliers of the products desired by foreign customers.

Over the past ten years, the value of finished lumber products exported and produced annually by Washington and Oregon mills has increased over 200 percent. During that same period, the value of softwood log exports as a percent of the total exports has consistently and sharply declined. (See Figure 7.)

Figure 7

Softwood Log Exports
and Total Forest Products Exports
Oregon and Washington



Weyerhaeuser takes great pride in the growth of its own finished product trade. For example, finished product exports, including pulp and paper, now account for 70 percent of the Company's exports to other countries. Last year, Weyerhaeuser's Washington operations alone sold over 100 million board feet of finished softwood lumber to Japan. This is double the amount sold in 1987. The trust and confidence we have established with our customers, as being a reliable supplier of a mix of quality products, has directly contributed to this growth in finished product exports.

In the last few years, U.S. trade negotiators have made significant progress in persuading our trading partners to reduce both tariff and non-tariff barriers that previously had restricted access to markets. Continuing efforts by the federal government to open Pacific Rim markets for finished products, such as the Pacific Rim Trade Barrier Study and the discussions resulting from the Super 301 process will further strengthen the ability of our U.S. trade representatives to negotiate the removal of the remaining Pacific Rim trade barriers.

One example of developing these relationships can be seen at our Cottage Grove Engineered Products plant, where Oregon workers are building laminated beams for export to Japan. Almost all of the labor is completed before shipment. All that remains after arrival is for the beams -- which, for example, form the roof of an enormous sports complex -- to be put into place and connected to each other.

enormous sports complex -- to be put into place and connected to each other. And again, it is our reliability as supplier and our position in the Japan market that has made this success story possible. One other illustration is Weyerhaeuser's recent announcement of a new market for finished hemlock lumber in Korea. This first shipment resulted from over a decade of marketing logs in that country, in which we established ourselves as a reliable supplier of quality products.

B. Log exports provide needed cash flow for investment in both modernization of facilities and forest management.

Exports have long been an essential part of Weyerhaeuser's operations, helping to provide jobs and reinvestment capital necessary to remain competitive in manufacturing, and to implement intensive forest management which is the key to future timber supply. The construction of our Pacific Veneer mill in Aberdeen, Washington in 1987, the recent opening of the CBX sawmill in Coos Bay and our recent announcement that we will proceed with construction of a $300 million third newsprint machine at Longview are examples of the company's continuing commitment to serving export markets.

In the last decade, Weyerhaeuser has invested over one and a half billion dollars in Oregon and Washington to construct or modernize our production facilities. During the same period, we have spent more than $500 million funding our long-term forest management investments in the Northwest. Our ability to reinvest in a crop that will not produce significant cash flows for 45 to 50 years in the future is dependent on access to unrestricted markets for our entire array of products. Without the availability of the log export market, many timberland owners - including Weyerhaeuser and the State of Washington - would have to reduce, perhaps sharply, their forestry investments, and if so, future regional timber supply would inevitably be reduced.

C. Log exports buoy the economy of many communities during cyclical downturns.

In 1988 we reached a cyclical peak in demand for export logs and we expect that 1989 log export volumes will be reduced somewhat from 1988 levels. Policy makers must remember that the log export issue, like the industry, is cyclical.

A few years ago, log exports were widely praised as the "salvation" of many firms and coastal communities. When domestic markets fall into a recession - as they did in the early 1980's and will again - log exports play a major role in maintaining the relative health of our ports and coastal communities and businesses.

D. Restrictions on log exports would harm established trade relationships.

Restrictions, or a threat of restrictions, on log exports would threaten the progress that has been made towards increasing finished product exports. It would send a signal that we cannot be relied upon to supply the needs of Pacific Rim customers. Should log exports from state-owned land be restricted, other countries would immediately move to exploit the opportunity to supply Japan and other Pacific Rim customers with both logs and lumber. The U.S. is not a monopoly supplier of either logs or finished products (including lumber, plywood, pulp and paper) in international trade. With New Zealand, Chile and the Soviet

Union already established as dependable suppliers of these materials, it would only be a matter of time before our former Pacific Rim customers turn to other countries for lumber and finished wood products as well as logs.

Rather than limiting trade with our Pacific Rim customers, we believe that we would be wiser to build on the relationships we have developed to expand international markets for all Northwest forest products. To simply argue that restricting exports from state lands would enhance Washington's economy by creating more sawmill jobs ignores the very important benefits that log exports now provide.

E. If state log exports were restricted, some firms would win and some would lose, but the net effect would be a net loss to the general public.

Log exports help maintain the stability of the forest products industry and provide the incentive and income for reinvestment. They also provide income for schools and local governments, jobs for longshoremen, construction workers and other service and supplier employees.

It is important that policy makers understand and properly frame this complex issue. If state log exports were banned, there would be clear winners and losers. The winners would be mills that purchase timber from state lands. That industry segment would see profit margins increase via lower raw material costs, at least in the short-term. The state, as a timberland owner, would lose revenue and would be forced to reduce the level of forest management - and therefore future supplies - unless replacement revenues were obtained elsewhere. Public schools, state and local governments and ports would also see their revenues decline significantly.

F. There are no simple solutions to the timber supply issue.

With the rapid reduction in Forest Service timber harvests, many mills that are totally or substantially dependent on federal timber are justifiably concerned about their future. With this concern inevitably comes the pressure to ban the export of logs grown on state-owned lands. It is sometimes suggested that everyone would win if a state log export ban was established. Proponents of such restrictions assume that, if such restrictions were in place, all of the logs currently being exported would be milled in Oregon and Washington. They further assume that international markets would require an equivalent volume of finished products, over both the short and long term, and that there are no alternative sources of logs or lumber outside the U.S.

The facts simply do not support these underlying assumptions, and the proponents claims ignore several important facts about international forest products trade and the benefits of log exports that were just described.

* Japan has 18,000 sawmills. The vast majority of these are small family owned mills that will continue to purchase sawlogs from whatever source is available. We need to be mindful that state logs, although admittedly in some cases preferred by Japanese mills, are not the only source of softwood logs in the world. New Zealand, Chile and the Soviet Union are all major suppliers of logs to the Pacific Rim market.

* There are a number of other reasons why logs will continue to be required by the Japanese customer, including: 1) a traditional home building industry that requires hundreds of different sizes of lumber in each home; 2) a requirement for metric sizes which creates problems for U.S. producers when an outlet must be found for lumber which does not meet the Japanese grade specifications; and 3) Japanese consumers have a cultural preference for "green" (not dried) lumber, making it difficult for U.S. producers to deliver the product in this form. However, the encouraging news is that an increasing number of new homes in Japan are being built using western style construction, which has helped to create a growing demand for kiln dried "2X4's". We expect this trend to continue.

* The estimated 500 million board feet of logs exported from state-owned lands in Washington would source two or three modern mills. It is critical to understand that most of this volume would not directly substitute for the reduced harvests from National Forest lands. While essentially all of the timber harvested from National Forests is a larger, old growth timber type, most of the timber harvested from State land is smaller diameter, second growth timber in different geographic locations.

* Schools, universities, and counties would lose significant trust revenues by restricting bidding on State timber, which according to the State's constitution must be managed to maximize revenues for these purposes.

The argument that everyone wins with state log export restrictions is not supportable. The Department of Natural Resources, universities, and counties do not believe it since they project that their revenues would drop. The State's ports and longshoremen do not believe it, because they know that the volume of logs being shipped to foreign customers will not be replaced with finished products if log export restrictions are put in place. Private timberland owners do not believe it because they recognize any reduction in access to free markets will reduce the value of their crop.

V. Conclusion

In conclusion, we would urge that the following points be considered as the Subcommittee weighs S 754 and S 755.

* The ability of Washington and Oregon to serve international markets with all types of forest products is vital to their long-term economic health. We must strengthen our reputation as reliable suppliers of all forms of forest products or risk loss of international customers to Canada, New Zealand, Chile, or the Soviet Union. We should focus our efforts on removing overseas tariff and non-tariff barriers, and on promoting U.S. finished products in foreign countries, rather than on restricting our access to established markets.

* Log exports from state lands are an important source of revenue to state trust beneficiaries, including schools, universities and counties. Loss of this revenue would likely result in higher taxes or reduced funding for forest management on state land, which would decrease long-term timber supply.

* Domestic U.S. and international offshore forest product demand has increased during the decade of the 1980's. This is a favorable development for the U.S. economy, but it means that we must direct increased attention to assuring the future supply of timber from all timberlands: federal, state and private.

* Both the U.S. economic cycle and the expected reductions in harvests from the National Forests are more significant factors in determining the future of the Northwest's forest products industry than is the volume of timber exported as logs in any given year. Log exports have actually buffered the coastal region from the cyclical changes in U.S. domestic demand for forest products.

* The key to sustaining future timber supply lies in managing all suitable commercial forest lands more intensively. A commitment to intensive management by all landowners - including the federal government - means that we can sustain the forest industry, improve our international competitiveness and participate in expanding world markets. At the same time, significant portions of the National Forest system can be reserved for Wilderness, endangered species protection and recreational uses.

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